SMALL BUSINESS ADMINISTRATION DISASTER LOAN ASSISTANCE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON GENERAL OVERSIGHT AND THE ECONOMY

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

SALEM, VA (A.M.) AND LEWISBURG, WV (P.M.), APRIL 11, 1986

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SMALL BUSINESS ADMINISTRATION DISASTER LOAN ASSISTANCE

FRIDAY, APRIL 11, 1986

House of Representatives,
Subcommittee on General Oversight
and the Economy,
Committee on Small Business,
Salem, VA.

The subcommittee met, pursuant to notice, at 9:35 a.m., in the Community Room, Salem Civic Center, Salem, VA, Hon. Nicholas Mavroules (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MAVROULES

Mr. Mavroules. Good morning. The hearing will now come to order.

Today we begin to look at the Small Business Administration's Disaster Loan Assistance Program.

SBA currently is the principal Federal agency providing long-term financial assistance to victims of natural and economic disasters. The SBA Disaster Loan Program is intended to provide homeowners and businesses the opportunity to get back into the productive mainstream, to occupy their homes or reopen their businesses by financing the repair or replacement of disaster-damaged property.

The new dollars which flow into the economy of the stricken community are spent many times over, contributing to the overall economic health of that area.

Unfortunately, we are now faced with a possible elimination of the Small Business Administration. And as a member of the Small Business Committee, I want to assure you that we are committed to maintaining the SBA as a viable, independent agency. We feel that the assistance programs offered by the SBA should remain available to our American small businessmen and women, and this includes the Disaster Loan Program.

Without an SBA, however, there would be no SBA Disaster Loan Assistance Program. And I am not sure any other agency would be able to handle the program. As a matter of fact, I am quite sure they could not do that.

Today we will be hearing from homeowners and businesses about their experiences with Federal assistance efforts since the floods of last November.

SBA is also testifying. They should be able to provide us with a better understanding of the program and can help facilitate possible solutions to the problems that have been encountered. Furthermore, we on the committee wish to help in anyway possible. That is why we are here today. And one of our goals is to ensure a strong and effective Disaster Loan Program.

I am delighted to be with you. I come from the northeast corner of our country. I represent the area that is north of Boston all the way up to the New Hampshire border. But we do have a feeling that when people are hurting throughout the country, whether I am from Boston, or California, Florida, or for that matter, Virginia, or West Virginia, that we have an obligation as public officials to travel and find out what the problems are and try to be of assistance.

That is why we are here this morning, at the behest of my distinguished colleague and dear friend Jim Olin, for the people here in Virginia, and Harley Staggers of West Virginia. We wanted to come here to find out firsthand what the problems are. Hopefully—and I mean that very sincerely—we can be helpful to you.

So please, speak with confidence when you come up. Before I turn the mike over to my friend Jim, I am going to ask those of you who will be testifying to please condense your statements. We have 14 people testifying. We have an airplane to catch to West Virginia. We have an additional 12 people testifying over there. Condense your statements, I will put them all in the record. And we will have the opportunity to ask you many questions.

Jim, I am sure you would want a few words at this point.

OPENING STATEMENT OF HON. JIM OLIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Olin. Thank you very much, Mr. Chairman.

I would like first to thank you for having this hearing in Roanoke and coming here. I would like to thank Mr. Harley Staggers from West Virginia, who is my neighbor across the border, Congressman, for coming here to take part in this part of the hearing.

The audience probably knows Nick Mavroules is the chairman of this subcommittee of the Small Business Committee of the House of Representatives that has oversight responsibility of the SBA and other activities. And it is entirely proper that this be the committee that looks into this particular situation. You are all aware that on November 4 and 5, this area of Virginia underwent the worst flood disaster in recorded history. There were several thousand people forced to leave their homes, 10 people died, hundreds of businesses were damaged.

In the area that I represent, 9, all 9 counties were involved in the flood, and 9 out of the 10 cities were involved in the flood.

Today it is over 5 months since the flood. Much of the mess and debris, of course, has been cleaned up. Most of the people are back in their homes. And those who were eligible for cash grants or other direct assistance have long since gotten their benefits, their money. Most of the municipalities are now getting the payment for the municipal things that were damaged.

But in the area of longer term help, loans, which is assigned to the Small Business Administration, we still have 76 percent of the individuals and businesses whose losses qualified them for a loan still waiting for their money. These people are desperate, both individuals and businesses. At this late date they do not understand why they have had to wait so long.

The purpose of this hearing is, first, to find out why the Disaster Loan Program operated by the Small Business Administration has not responded more effectively to this disaster situation and, second, to determine what can be done now, quickly, to finish up the process, get the loans closed that have already been approved and the people are waiting for the money and, third, to consider changes that need to be made by the SBA or by the Congress to see to it that in the future as disasters occur around the country they are not as poorly served as this one has been with regard to these loans.

Now I am quite upset about this whole situation, as many of you may know. And for those that are testifying, if I seem a little, little testy—I will try not to be—but I am very concerned about what has been happening. And this is why:

As of last Monday, April 7, 2,703 applications for loans had been received; 908 of those were withdrawn because the individual either withdrew or the SBA turned the loan down. This leaves 1,795 loans that are in—that are active applications. Of these, 1,655 have now been so-called approved. They have received the stamp of approval, the people have been told their loan is approved.

This includes 1,340 loans for homes, homeowners, totaling $21.4 million; 325 loans for businesses totaling $19.8 million; and there are 130 applications yet to be acted on. Now so far so good.

But now, of these loans that have been approved there are 1,655 approved loans, 80 percent of which had been received by January 10, the cutoff date that was originally established, more than 3 months ago. Only 430 checks have been sent out, to my knowledge: 401 for home loans totaling $2.1 million. That is 30 percent of the loans have been disbursed, but only 10 percent of the money value. So 90 percent of the loss that has been approved has not resulted in a check being sent to the homeowner. Only 29 business loans have been disbursed, totally $300,000. That is 9 percent of the business loans have been disbursed; 91 percent have not yet received checks.

And only 1.5 percent of the loan money has been sent out. That means that 98.5 percent of the business loan money has not been sent out yet.

And I can tell you, and you will hear about it a little bit today, that these businesses, 5 months after the flood, in some cases 2, 3, 4 months after their loan application went in, have not received their money and they are about to go under. And this will affect not only the business owner but all the business' employees. It needs to be acted upon.

So we have 1,235 approved loans not yet completed, plus the 130 not acted on, or 1,365 loans, 76 percent of the total, where disbursements have not been made.

I began to get complaints about the SBA Disaster Loan Program early in January. At that time, 2 months after the flood only one check had been sent out. And I have been trying to find out since that time what is the problem. My offices have been doing almost nothing else but try to expedite loan applications, help people to get their loans. We have made some headway. But we have a long way to go, as you can see.

Today I would like the subcommittee to hear what I have been hearing, from the loan applicants themselves, from the SBA officials, and from both other private and public sector people that have been trying to help in this process.

I think everybody understands that the SBA has quite a bit of leeway as to how they run this program. Congress has indicated what the interest rate shall be under certain conditions. It indicated some limitation on the term of the loans. It has insisted on flood insurance where people are located in the flood plain. But beyond that, the procedures and the methods and the forms and decisions on collateral, decisions of evaluating the applicant, the ability to repay, are in the hands of the SBA.

We understand that the SBA should be prudent with regard to being sure they have a reasonable chance of getting the money back. These are loans after all, not grants. But they also should be interested in closing the loan to help the person get back on his feet and recover and get back into the mainstream of life. And this needs to be done promptly.

I would like the committee to try to evaluate this situation from what they hear and try to determine what is wrong. And I just raise some questions.

One of the questions that was in my mind is: Is the SBA really interested in granting these loans? Or is this part of the process of shutting down the SBA agency, as has been recommended by the President?

Or, is the problem that the SBA is being so defensive and self-protective resulting from prior bad experiences that they are not willing to take any risk at all of not getting their money back?

Or, is the problem that the SBA centralized down at Atlanta, moved all their people down there, moved out of the area too fast, did not leave anybody around to help people with the closing papers? Is that the principal problem?

Or, is the agency just basically so bureaucratic and poorly staffed that they just do not give a hoot, and they hang their hat on the fact that if they put the stamp of approval on the loan, even though nobody gets the money they do not really take much interest in that?

And that shows up in the desire of the agency to have a good report card and then get the loan approved, then ship to the unhappy applicant the papers that describe the rest of the terms and conditions, and the applicant is left there sitting there not knowing what to do.

I would also like to find out why it has been so difficult for individual applicants to get a straight story from the SBA people they talk to, either here or in Atlanta. It seems to have been impossible for some applicants to find out exactly what the loan terms and conditions are going to be for their loan. They get the answer that the loan has been approved. And then later on over a period of contacts, over months, they find out what the rest of the terms are. And they are in a position of having been strung out to the point where some of them finally give up and they come back and say, "Well, you know, if I knew that in the first place, I knew we did not have a deal here, I could just as well have gone to a commercial bank in the first place. Why did you string me out like that?" You will hear some discussion about that today.

I have some ideas about what needs to be done with this process. And I think I will have an opportunity back in Washington to take some action on some of those ideas. I think my ideas will be shaped a little bit more by what happens here today.

I hope that the loan applicants and the others who testify today can lead us with more information on this subject. What is the situation? And what should be done about it?

I think the witnesses should testify and dwell on what is good about the SBA work over the last 5 months and what is bad about it. What are their ideas about what should be done to help clean up these 1,365 loans that are still outstanding? And then, what should Congress consider for the longer term future?

I am looking forward to the testimony. I am approaching it objectively. I am upset. But I am anxious to find answers. And I hope that this hearing will provide some of those answers.

Thank you very much, Mr. Chairman.

Mr. MAVROULES. Well, thank you, Jim, for a very eloquent statement.

I would now ask Harley if he has a few words at this time?

OPENING STATEMENT OF HON. HARLEY O. STAGGERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WEST VIRGINIA

Mr. STAGGERS. Thank you, Mr. Chairman.

I have to congratulate you and compliment you for coming down here and sharing our concerns in this area. But also, I would like to praise you for your leadership and your concern about the whole wide area, not just in our area, of the SBA, and how it operates across the Nation.

Mr. MAVROULES. Thank you.

Mr. STAGGERS. Also, my neighbor across the mountain, Jim Olin, has been tremendous in this area. And fighting for your constituents has helped some of my constituents. So I thank you also.

Hopefully, I can set an example here and I will try to be brief.

I think that I would have to reiterate what Jim has said. I think that there have been some delays, there have been some mistakes. There has been a lot of misinformation. There has been a lot of unnecessary redtape, at least for my constituents. I think what we need to do here, therefore, is to look at and make sure that the laws that we do have are being followed, and that, hopefully, when we do get back to Washington we may look at some possible changes in the law so that some of the redtape could be eliminated and some of the necessary loans that are necessary for rebuilding small businesses can be easily put into place.

I share the fear that my colleague, Mr. Olin, has also, though, that it seems like someone in the SBA is trying to build a case for the elimination of the SBA by performing poorly. And I think that—I hope that I am wrong—but I think that if this is the case, that we are not going to be duped into that process, that in fact there is a clear line between the usefulness of an agency and the performance of that agency.

There is an obligation to perform here. If the citizens sitting out here today did not fulfill their obligations, we would call them deadbeats. And I think that as they look at the Government they rightfully could say that the Government is being a deadbeat in a sense also. We need some answers and, hopefully, we will get those today.

Thank you, Mr. Chairman.

Mr. MAVROULES. Well, thank you very much, Harley.

Before we call upon the first three to testify, I just want you to know that Tom Ridge, our colleague from Pennsylvania, has submitted a statement for the record in relation to the Disaster Loan Program. He has indicated that he wants the SBA to continue, perhaps with some changes to be a little more effective, a little more efficient. And we would be delighted to place that in the record.

[Congressman Ridge's prepared statement follows:]

WASHINGTON OFFICE:
1714 LONGWORTH BLDG.
WASHINGTON, DC 20515
(202) 225-5406

COMMITTEES:
BANKING, FINANCE
AND URBAN AFFAIRS

VETERANS' AFFAIRS

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ON AGING

TOM RIDGE
21ST DISTRICT, PENNSYLVANIA

Congreſs of the United States
House of Representatives
Washington, DC 20515

DISTRICT OFFICES
108 FEDERAL OFFICE BLDG.
ERIE, PA 16501
(814) 456-2038

305 CHESTNUT STREET
MEADVILLE, PA 16335
(814) 724-8414

91 EAST STATE STREET
SHARON, PA 16146
(412) 981-8440

April 10, 1986

The Honorable Nicholas Mavroules
Chairman
Subcommittee on General Oversight and the Economy
Committee on Small Business
B-363 Rayburn
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman,

I write to respectfully request that the enclosed testimony be read and included as part of the official record for the Committee's April 11th hearing regarding the SBA's disaster loan program. I sincerely regret being unable to participate in the hearing personally given my genuine desire to assist the Committee in reviewing this program.

Having worked with the SBA for nearly a year following a Presidential disaster declaration in my district, I believe that the committee's hearings are both timely and necessary. Please accept my personal appreciation for your leadership in this regard.

Thank you in advance for including the enclosed testimony in your proceedings.

With best personal regards, I remain,

Very truly yours,

Tom Ridge

Tom Ridge
Member of Congress

TR:mh
enclosure

PREPARED STATEMENT OF HON. TOM RIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman and Members of the Subcommittee:

I would first like to commend the committee for providing such a valuable and timely opportunity to review the Small Business Administration's (SBA) disaster loan program. As the chairman is well aware, federal families and business owners have proved to be indispensible to our nation's disaster recovery efforts. Unfortunately, there are all too few members of Congress and the administration who are fully aware of the critical support which such loans have provided to thousands of our citizens in their time of need.

I will be the first to admit that a year ago, the topic of federal disaster assistance was not something I thought much about. But suddenly, last May 31st, when tornadoes devastated the countryside in my Congressional District and in adjacent areas, I began to think about it a great deal, as I witnessed the tragic effects on the towns and people I know so well. The storms, the most powerful and violent in Pennsylvania's history, left 65 people dead and caused an estimated $250 million in damage. In my district alone, 771 homes and 60 businesses were either destroyed or severely damaged. As the committee can well appreciate, the amount of uninsured and underinsured losses was tremendous. By early August, the SBA has accepted 681 applications in Pennsylvania from taxpaying citizens who were in dire need of assistance to rebuild their homes, businesses, and the very lives of their families.

On April 4th, I received a letter from Charles L. Healtherly, Acting Administrator for the SBA, which explained that a "transfer of the SBA to the Department of Commerce" as opposed to an abolition of the agency was actually what was being proposed to Congress. Mr. Heatherly stated further that, "It is true that certain programs administrated by the SBA will be terminated." These programs, accordingly to Mr. Heatherly, are "more appropriately carried forward by state and local governments." Among the programs slated for termination is the disaster loan program. I wholeheartedly disagree with this proposal.

The National Emergency Management Association estimates that up to 85% of all of the current costsof disaster assistance is already being borne by state and local governments. If the SBA disaster loan program is eliminated in conjunction with current proposals being advanced by the Federal Emergency Management Agency which would reduce the public assistance programs by nearly 2/3, the federal government would be virtually eliminating meaningful disaster assistance. In my estimation, this does not represent a partnership with state and local governments. Rather, such a proposal represents an abrogration of responsibility. American taxpayers sent nearly half a billion dollars to Ethiopia, Columbia and Mexico for disaster assistance in 1985 alone. Private contributions to our friends in the international community totalled even more. We can afford to take care of our own citizens in their time of need. The SBA disaster loan program is truly a modest contribution in this regard.

The SBA disaster loan program should remain intact, and I would urge this committee to ensure that federal loan support is available to disaster victims. In the event that the SBA is abolished at any future date, the orderly transfer of the disaster loan program is essential. I am willing to assist the committee in any such effort.

However, while I continue to support federal disaster loans, I would not offer a stamp of approval to the state of the existing program. The current administration of the SBA loan program must be reformed to establish an acceptable and more responsive time frame between application submission, loan approval, and receipt of funds.

Mr. Chairman, it is almost inconceivable that in my district, there are still outstanding loan applications from a disaster that happened nearly one year ago. Perhaps it is understandable that a government disaster loan might take a few days or weeks longer than a private loan, but this program must become much more responsive to families, as well as businesses.

Mr. Chairman, I have drafted and will be forwarding legislation to this committee which would mandate specific time frames for loan application approval, clsoing, and actual disbursement of loan proceeds. The committee's consideration of this legislation would be most appreciated. I will remain open to any proposals which the committee may offer in this regard and would also appreciate any suggestions and/or comments with respect to my proposal.

In closing, the matter of inflexibility was also a problem for disaster victims in Pennsylvania. The SBA staff, while quick to respond to calls from my office were also equally adept at providing a rote response followed by a form letter to my constituents. The system of form letters is so systemized that I am concerned that motion is often confused with progress by the agency's loan officers. They are so versed with respect to program regulation and routine duties that a great deal is lost with respect to the unique an~~d per~~sonal needs of the disaster victims. This type of program expertise could easily be confused with indifference to the needs of disaster victims.

I believe that the SBA's program staff does care about their program as well as their clients and our constituents. However, some honest evaluation of program perception and performance is very much in order.

Mr. Chairman, members of the committee, thank you once again for the opportunity to participate in this important hearing. Your efforts and leadership in this endeavor are most appreciated by your friends and neighbors in Pennsylvania.

Mr. **Mavroules**. The first three witnesses this morning are Mr. Bernard Kulik, Deputy Associate Administrator for Disaster Assistance, SBA, Washington, DC; and Mr. Richard J. Nash, area director, SBA Disaster Assistance Center, Atlanta, GA; Mr. Robert Adamcik, Federal Coordinating Officer, Federal Emergency Management Agency [FEMA], from Philadelphia, PA.

Gentlemen, if you will take the witness chairs we can proceed. I think you have a pretty good idea of where we are all coming from here this morning. We will be listening to testimony after you testify. I would appreciate it very much if you could condense your opening statements. We will include all of your statements in the record, so we can get right to the questions.

So, Mr. Kulik, if you would begin.

TESTIMONY OF BERNARD KULIK, DEPUTY ASSOCIATE ADMINISTRATOR FOR DISASTER ASSISTANCE, SBA, WASHINGTON, DC, ACCOMPANIED BY RICHARD J. NASH, AREA DIRECTOR, SBA DISASTER ASSISTANCE CENTER, ATLANTA, GA

Mr. **Kulik**. Thank you, Mr. Chairman.

Mr. Nash and I would like to have our prepared statement included as part of the record.

Mr. **Mavroules**. Without objection.

[Prepared statement of Messrs. Kulik and Nash follows:]

SBA
U.S. Small Business Administration
Washington, DC 20416

STATEMENT OF

BERNARD KULIK
DEPUTY ASSOCIATE ADMINISTRATOR
FOR DISASTER ASSISTANCE

AND

RICHARD J. NASH
DIRECTOR, DISASTER AREA 2 OFFICE

BEFORE THE

SUBCOMMITTEE ON GENERAL OVERSIGHT AND THE ECONOMY
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

April 11, 1986

We would like to thank you for the opportunity to appear and testify today concerning our disaster loan program and the assistance that was and is being made available to victims of flooding early in November 1985.

Let us put this disaster and our response in context. In Fiscal Year 1985, physical disaster lending activity was very light. Only 6,468 physical loss non-farm loans were made that year, lower than any year since FY 1969. In fact, since 1982 there had been only one hurricane that struck the continental United States and caused major damage (Hurricane Alicia). However, the 1985 hurricane season (which ended November 30, 1985) quickly changed all that. During that season, 6 hurricanes (the most since 1916) hit the U.S. In that same period, 14 disasters were declared as a result of hurricanes, with 5 of those being major disaster declarations issued by the President. In the first half of this fiscal year, our applications for physical disaster assistance have more than doubled that of the entire previous fiscal year and will undoubtedly exceed the volume for any year since Fiscal Year 1981. Of the 14 hurricane declarations, 6 (including 4 of the 5 major disasters) were in the 19 states covered by our Area 2 Disaster Office headquartered in Atlanta.

As can be imagined, the volume of activity which these disasters generated was significant. However, our system can and does have the capacity to expand rapidly to accommodate it. The Area 2 Disaster Office employed an average of about 100 people from January to August 1985. During August and September, employment doubled to almost 200 people and, in the month of November, doubled again to almost 400 people. And that does not include the sizable volunteer effort which the area office received.

As you know, the President made a major disaster declaration in Virginia on November 9, 1985. Pursuant to that declaration, the Federal Emergency Management Agency (FEMA) opened 9 Disaster Application Centers (DACs) on November 13, 1985. DACs were open in 21 various locations in the State through November 30, 1985. SBA was represented at each DAC, which required approximately 440 person days between November 13, 1985, and November 30, 1985. Of these 440 person days, approximately 230 represented SBA staff and 210 represented volunteer effort, mostly local bank officials.

Let us stop for a moment here to mention the outstanding response that we received from banks and their employees during this disaster. As is quite apparent, staffing DACs takes a great many people. In this and all disaster situations, we ask for local volunteers to help us assist disaster victims in the DACs, to explain our lending program, be sure that the victims are aware of the assistance available and have all the necessary papers, and answer any questions they may have. For the most part, we look to local banks for this assistance because they are familiar with the area, the people, and understand credit matters. With a minimum of training to cover the specifics of our program and certain legal requirements, we are able to have them work side by side with our employees with excellent results. These volunteers work long hours with us under the same trying circumstances and we have found that their presence - the presence of a local, perhaps familiar face, with knowledge of the local community - is both helpful and reassuring to victims. Last week the Agency recognized the contribution of 11 banks and their employees for their help in DACs. We would like, once again, to express our thanks to these volunteers for a job well done.

The period for filing disaster loan applications for physical damage loans ended January 10, 1986. The period for filing applications for economic injury disaster loans will end August 11, 1986. The statistics for this disaster are as follows:

As of COB 3/28/86

Declared	11/09/85	
End of Filing Period	01/10/86	
Applications filed	11/09/85 to 12/26/85	1,474
Applications filed	12/27/85 to 01/10/86	594
Applications filed after	01/10/86	499
TOTAL		2,567
Applications accepted for reconsideration		136
TOTAL		2,703

Statistics		Total	Home	Business
Interviews		6,949		
Summary Declines		1,814		
Applications Handed Out		5,138		
Applications Filed		2,703 (136 recons)	1,978	725
Withdrawn		424 (10 recons)	236	188
Declined		484 (17 recons)	352	132
Approved		1,598 (65 recons)	1,317	281
Applications Pending		197 (44 recons)	73	124
In Verification	26			
In Processing	136*			
In Funding	35**			
Disbursements		349		
Loan Closing Documents Not Returned		882		

* Includes 27 cases subject to 14-day letters (7 home loan applications, 20 business loan applications). When accepted applications are incomplete, or when additional information is necessary, the missing items are requested in writing and by telephone. If the information is not supplied, the applicant is given written notice that the application will be withdrawn if the missing information is not supplied within 14 days. These applications cannot be processed without the missing information.

** Processing for these applications (approvals) was completed as of COB March 28, 1986, but the funding documents had not been completed. They were approved loans by April 1, 1986.

When a disaster of this magnitude strikes, there are immediate emergency needs for medical services, food, shelter, clothing, etc., that must be met. National and local voluntary organizations, state and local governments and Federal programs such as temporary housing and disaster unemployment assistance are available to meet those needs. SBA's disaster loan program does not provide immediate emergency relief. It provides loans to assist in long-term repair or replacement of uninsured disaster damage.

As a lending institution, particularly one that lends Federal funds at subsidized interest rates, we are obligated to make loans only where we can find that a reasonable assurance of repayment exists. The information requested in our loan application is intended to give us the basis for that decision and to enable us to satisfy the mandates of other applicable Federal laws. In addition, before we can approve a loan and disburse the funds we must be satisfied that steps needed to safeguard the Government's interest as a lender have been taken.

Generally, there are eight steps involved in disaster loan making in a Presidential declaration. They are:

1. Declaration by President

2. Outreach and Dissemination of Information and Applications - This is mainly done in DACs which are organized and run by FEMA. The number, location and timing of DACs are set by FEMA.

3. Filing of Applications with SBA - Applications must be filed within 60 days from the declaration date for physical losses. This time can be extended by FEMA. The timeframe for filing EIDL's is generally 9 months (but currently not to exceed September 2, 1986).

4. Screening and Docketing - Applications received by SBA are screened for completeness and accepted (docketed). Those applications that do not include enough information to even begin the process are not accepted and are returned to the applicant. Where accepted applications are incomplete, a deficiency notice is sent to the applicant requesting the information not provided.

5. Verification - On-site inspection of disaster damage by an SBA construction analyst and determination of cost to repair or replace disaster damaged property.

6. Loan Processing - Determination of loan eligibility, credit elsewhere, repayment ability, terms of loan, collateral requirements, conditions of loan agreement.

7. Loan Closing - Preparing and forwarding to borrowers documents necessary for closing approved loans.

8. Disbursement - Reviewing returned loan closing documents and ordering checks for controlled loan disbursements.

The Agency goal is to have 90 percent of all complete applications from any one disaster processed through to decision (withdrawal, decline or approval) and notification given to the applicant no more than 60 days after they are filed.

However, the system is predicated on the response time from the applicant. In a disaster of the severity of the flooding which occurred in Virginia, there is considerable emotional stress, and attention must be given to immediate needs of the families affected; consequently, there are delays in returning their SBA disaster loan packages for processing. Simply said, there are more important things to be done than filling out the SBA applications. But, as a practical matter, SBA cannot begin any of the steps involved in loan processing until a reasonably complete application has been filed.

SBA, for its part, begins a mass media campaign to encourage the early return of applications. We establish circuit rides to cover areas with the most damage to offer further assistance to applicants and answer any questions they may have. In addition, we arrange for workshops, usually in the evenings, which are staffed by SBA personnel and volunteers to help applicants complete their applications. We are available through the FEMA hotline in the Disaster Field Office. We also widely publicize our local disaster phone number and the toll free 800 phone number to the Atlanta Disaster office. In the subject disaster, all of these methods were used. Yet, as has been our experience throughout the program, the majority of disaster loan requests were received at the end of the filing period.

As the above statistics indicate, in this disaster 42 percent of the applications were received on or after December 27, 1985 (two weeks before the end of the filing period), and 19 percent were actually received after the closing date of January 10, 1986. The bulge in the pipeline caused by this bunching of applications moves sequentially through screening and docketing, verification, loan processing, loan closing and disbursement resulting in slower treatment every step of the way. Similarly, after a loan has been approved, disbursement of funds cannot begin until the applicant has returned the loan closing documents to us. In the more simple, unsecured loans (generally those of $5,000 or less), the individual applicant must sign the note, loan agreement and provide us with evidence of flood insurance (if in a flood hazard area). Larger, more complex loans must be secured. In addition to the note, loan agreement and flood insurance, such loans may require recording of liens, title searches, hazard insurance, building permits and other loan closing steps designed to satisfy legal requirements and protect the Government's interest as a lender.

To facilitate loan closing, we include specific instructions with the loan closing documents and have a follow-up procedure. The cover letter contains a telephone number to be called if there are any questions. We make follow-up telephone calls and send a written reminder that disbursement cannot start until we have received and reviewed the loan closing documents. When appropriate, we schedule "loan closing" circuit rides to answer questions and assist applicants as far as is possible. In a recent telephone survey of applicants who had not yet returned their loan closing documents, 80 percent stated that they understood the instructions but had "not gotten around to it yet."

We should also mention that businessmen in a disaster area, by and large, do not have the same Federal assistance available to them as is available to individuals. There is no temporary housing program, mini-repair program, or individual and family grant program available for businesses. We realize, up front, that we cannot give businesses assistance as fast as they would like to have it. Because of this, in all our bank contacts at the beginning of a disaster we stress the importance of having the local bank consider an "interim" or "bridge" loan to a business. Of course we cannot commit the Agency to a take out loan, but we can inform banks of our program and procedures and tell them that we would not object if the proceeds of our loan were used to repay an interim bank loan that was used to repair or replace eligible disaster damage. The local bank that is familiar with local business conditions, that already has an established financial relationship with the business, that knows the business and its owners and their financial conditions should be in a position to provide interim financing if the credit conditions warrant it. We also inform the banks that the decision as to whether a business has credit available elsewhere will not be affected by the presence of an interim loan.

We are constantly reviewing our program and our procedures to see if we can make our operation more effective and efficient. Unfortunately, we have no reason not to expect as much activity this spring and summer as we have had in the first six months of the year. This is particularly true in view of the current major disaster in California and the forecasts for possible flooding in the Great Lakes area. From the lessons learned in this disaster and within the limits of available resources, we will concentrate on more up front workshop type meetings after the DACs have closed. At those workshops, SBA employees and volunteers will help victims complete their applications. Because 90 percent of our loans are home loans, if applicants bring with them copies of their tax returns, deeds and insurance information, perhaps a good many applications could be completed during the workshop. In that way, perhaps we can smooth out the filing bulge and increase our ratio of complete applications. Also, we will establish field closing offices, perhaps on a circuit ride basis, using SBA personnel and volunteers to assist applicants in closing loans. In that way we can address problems as they arise, help applicants decide whether to proceed with the loan closing, and facilitate the flow of funds to applicants.

We appreciate the opportunity to be here. You may be assured that we will review the testimony given here to determine if we can improve our program and its delivery within our statutory mandate and within the limits of available resources.

We would be happy to answer any questions you may have.

Mr. KULIK. I do have some additional copies if somebody would like copies of the prepared statement.

Also, Mr. Chairman, in the prepared statement we have certain statistics as of the time the statement was prepared. Those statistics represented the figures as of the close of business March 28. I have more updated statistics as of close of business April 7 which I would leave here for anybody who would like them, and would also like to have those placed in the record.

Mr. MAVROULES. It will be placed in the record.

[The statistics referred to follow:]

VIRGINIA, #2218
COB 4/7/86

Declared	11/09/85		
End of SBA Filing Period	01/10/85		
Applications Filed	11/09/85 - 12/26/85	1,474	
Applications Filed	12/27/85 - 01/10/85	594	
Applications Filed after	01/10/86	504	
Total			2,572
Reconsiderations			167
			2,739

Statistics				Home	Business
Interviews		6,949			
Summary Declines		1,814			
Applications Handed Out		5,138			
Applications Filed		2,739	(167 recons)	1,983	756
Withdrawn		460	(11 recons)	244	216
Declined		513	(25 recons)	369	144
Approved		1,665	(96 recons)	1,340	325
Applications Pending		101	(35 recons)	30	71
In Verification	17				
In Processing	62[a]				
In Funding	22[b]				
Disbursed		430			
Loan Closing Documents Not Returned		988[c]			

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[a] Includes 12 cases subject to 14-day letters. When accepted applications are incomplete, the missing items are requested in writing and by telephone during the screening process. Follow-up telephone calls are made. If the information is not supplied, the applicant is given written notice that the application will be withdrawn if the missing information is not supplied within 14 days. These cases cannot be processed without the missing information.

[b] These were approved by cob 4/7 but the funding documents had not been completed. They will be approved loans by cob 4/9/86.

[c] Letters accompanying the loan closing documents contain detailed instructions and a toll-free telephone number to call if any questions arise. Where loan closing documents are not returned in 15 days, a follow-up telephone call is made.

VIRGINIA, # 2218
Statistics

I. Net Processing Timeframes (COB 4/7/86)*
From Filing to Credit Decision

	Withdrawals	Declines	Approvals	All
1 - 15 days	35 (8 recons)	56 (23 recons)	118 (67 recons)	209 (98 recons)
16 - 30 days	149 (3 recons)	163 (2 recons)	423 (27 recons)	735 (32 recons)
31 - 45 days	122	154	538 (2 recons)	814 (2 recons)
46 - 60 days	95	85	369	549
61 - 75 days	54	43	146	243
76 - 90 days	5	11	61	77
91 -105 days	0	1	10	11
	460 (11 recons)	513 (25 recons)	1,665 (96 recons)	2,638 (132 recons)

* Elapsed time from filing to credit decision, excluding time when application was unprocessable; i.e., when required information was not filed with application and application could not proceed without missing information (in each case applicant was advised, in writing, of missing information).

II. Gross Processing Timeframes (COB 4/7/86)*
From Filing to Credit Decision

	Withdrawals	Declines	Approvals	All
1 - 15 days	20	46	97	163
16 - 30 days	77	154	347	578
31 - 45 days	133	148	506	787
46 - 60 days	105	97	397	599
61 - 75 days	89	51	198	338
76 - 90 days	32	15	88	135
91 -105 days	4	2	32	38
	460	513	1,665	2,638

* Elapsed time from filing to credit decision including time when application was unprocessable because required information was not supplied (in each case applicant was advised, in writing, of missing information).

III. Timeframes* From Credit Decision to Initial Disbursement (Check Ordering)(COB 4/7/86)

	Gross	Net
1 - 15 days	15	87
16 - 30 days	90	269
31 - 45 days	115	69
46 - 60 days	92	5
61 - 75 days	95	0
76 - 90 days	17	0
91 -105 days	6	0
	430	430

* Gross time includes the time the documents were in the borrower's hands and mail time. Net time excludes the time the documents were in the borrowers hands and mail time

IV. Timeframes of Loan Closing Documents
Outstanding as of (COB 4/7/86)

1 - 15 days	241
16 - 30 days	237
31 - 45 days	245
46 - 60 days	151
61 - 75 days	114
76 - 90 days	0
91 -105 days	0
	988

V. For comparison purposes, we have reviewed the available records on some past closed disasters to determine average times between loan approval and disbursement. This review indicates that the average time is 35-45 days. It also indicates a wide range of times. This timeframe in most of the loans is well under 45 days, perhaps even under 30 days. In some loans, however, estimated at 10-15 percent of the total, the timeframe is over 90 days. Of course, this can vary widely from disaster to disaster.

Mr. MAVROULES. Do they differ substantially by the figures that Mr. Olin has pointed out?

Mr. KULIK. No, sir; the figures that Mr. Olin has pointed out are the figures on these exhibits.

Mr. MAVROULES. Very good. Thank you very much.

Mr. KULIK. I would like to summarize what is in our statement. First, if I may make a few preliminary comments in response to the statements made by the committee.

I would really like to comment on two things. First, gentlemen, let me assure you on behalf of the people in the disaster assistance program that we are not part of any conspiracy to do away with the agency by not doing our job in a proper fashion. We are all professionals. We try to act like professionals. We believe we do act like professionals. And we will follow the mandates of Congress and the administration as they are given to us.

Mr. OLIN. Excuse me, Mr. Kulik. I want to ask whether those in the back of the room can hear Mr. Kulik's testimony?

[A chorus of noes.]

Mr. OLIN. You cannot. OK.

Could you move the mike, that one you have your right hand on, yes?

Mr. KULIK. Is that better?

Again, let me repeat my assurances for everybody in the room to hear that we are not part of any conspiracy or plot to do away with SBA by inaction or by running the program in an inefficient manner. We are professionals. We act like professionals.

There obviously can be disagreement as to whether we believe a certain course of action is effective or efficient or not. But let me repeat that there is no hidden agenda or conspiracy here.

The other comment I would like to make is to lay at rest an implication that anybody might get or might have that we do not care about disaster victims. I think you will find that the people in this program, as I said, are professionals, work very long and hard hours. Their work week in a disaster situation is 6 or 7 days a week. Their workday is never 8 hours, it is at least 10 or 12 hours. They operate under conditions that most people would not consider ideal for employment, particularly would not fit the public image of what a bureaucrat expects as his working environment.

They live out of suitcases many weeks, many months. I think they evidence by their actions the fact that they do care about disaster victims.

Once again, there may be honest disagreement as to whether we operate in the most effective and efficient manner. However, please do not leave here with the feeling that we do not care.

Now, sir, if I may summarize from our statement. First, we would like to put this disaster and our response in context.

In fiscal year 1985, physical disaster lending activity was very light. There were only 6,400 physical loss nonfarm loans made that year, lower than any year since fiscal year 1969. In fact, since 1982 there had been only one hurricane that struck the continental United States and caused major damage.

The 1985 hurricane season, however, which ended November 30, 1985, quickly changed all that. During that season there were six hurricanes that hit the United States, the most since 1916. In that same period, 14 disasters were declared as a result of hurricanes, with 5 of those being major disaster declarations by the President. Incidentally, Virginia and West Virginia were among those five.

In the first half of this fiscal year, our applications for physical disaster assistance have more than doubled that of the entire previous fiscal year and will undoubtedly exceed the volume for any year since fiscal year 1981.

As can be imagined, the volume of activity which these disasters generated was significant. However, our system can and does have the capacity to expand rapidly to accommodate it. The area 2 disaster office, which Mr. Nash heads, employed an average of about 100 people from January to August 1985. During August and September, employment doubled to almost 200 people, and in the month of November it doubled again to almost 400 people. And that does not include the sizable volunteer effort which the area received.

And let me stop a moment here to mention the outstanding response that we received from banks and their employees during this disaster. As is quite apparent, staffing disaster application centers takes a great many people. In this and all disaster situations, we ask for local volunteers to help us assist disaster victims in the centers, to explain the program, to talk about lending, to be sure the victims are aware of the assistance available and have all the necessary papers, and answer any questions they may have.

For the most part, we look to local banks for this assistance because they are familiar with the area, the people, and understand credit matters. With a minimum of training to cover the specifics of our program and certain legal requirements, we have them working side by side with our employees with excellent results.

They work long hours with us under the same trying circumstances. And we have found that their presence, the presence of a local, perhaps familiar face with knowledge of the local community, is both helpful and reassuring to the victims. Last week, with Congressman Olin, the agency recognized the contribution of 11 banks and their employees for helping the disaster application centers. And we would like once again to express our thanks to these volunteers for a job well done.

When a disaster of this magnitude strikes there are immediate emergency needs for medical services, food, shelter, clothing, et cetera, that must be met. National and local volunteer organizations, State and local governments, and Federal programs, such as temporary housing and disaster unemployment assistance, are available to meet those needs. SBA's Disaster Loan Program does not provide immediate emergency relief. It provides loans to assist in long-term repair or replacement of uninsured disaster damage.

As a lending institution, particularly one that lends Federal funds at subsidized interest rates, we are obligated to make loans only where we can find that a reasonable assurance of repayment exists. The information requested in our loan application is intended to give us the basis for that decision and to enable us to satisfy the mandates of other applicable Federal laws.

In addition, before we can approve a loan and disburse the funds we must be satisfied that steps needed to safeguard the Government's interest as a lender have been taken.

Mr. Chairman, the statement outlines the steps that we go through. It does contain statistics and quite a bit more information. Since you will include it as part of the record, I will conclude my opening statement.

Mr. **Mavroules**. Well, thank you very much for your opening statement.

Mr. Nash, do you want to add to that? Or is that part of your statement, too?

Mr. **Nash**. My statement, too.

Mr. **Mavroules**. That is good.

We will move on to Mr. Adamcik. And then we will ask you some questions, gentlemen.

TESTIMONY OF ROBERT J. ADAMCIK, FEDERAL COORDINATING OFFICER, FEDERAL EMERGENCY MANAGEMENT AGENCY, PHILADELPHIA, PA

Mr. **Adamcik**. Good morning.

Mr. **Mavroules**. Good morning.

Mr. **Adamcik**. I was appointed the Federal coordinating officer during the disaster response in November.

I have a prepared statement which I have submitted for the record, but I think it is important, though, to spend a few minutes with a few opening remarks. I would like to talk about the role of the Federal Emergency Management Agency and the role of the Federal coordinating officer in order to place their responsibilities and authorities in perspective.

The Disaster Relief Program is truly the President's program. When the President makes a declaration of a major disaster he uses authority in Public Law 93-288. His authority in that legislation has been delegated to the Director of the Federal Emergency Management Agency.

Once a declaration is made the Director then appoints a Federal coordinating officer to coordinate the entire Federal relief effort.

There are over 20 Federal agencies that have continuing statutory authority to provide some form of emergency and disaster assistance to individuals, to businesses, and to communities: Corps of Engineers, Federal Highway Administration, Environmental Protection Agency, Small Business Administration, just to name a few.

The role of FEMA and the role of the Federal coordinating officer is to coordinate these agencies. I, as the FCO, have no authority to direct any Federal agency in carrying out their own programs. I merely create an umbrella, a framework, or an environment within which these Federal agencies operate during any disaster response.

I am occasionally asked to explain what I mean by coordinating. Let me take a few minutes to give you some examples of what I did in Virginia as an explanation of my responsibilities as the FCO.

In my opinion it was truly a joint Federal, State, local voluntary agency relief effort. Once I assessed the situation I assembled a staff of over 150 FEMA employees from all over the country. I established a command and control headquarters, which we call a disaster field office, here in Roanoke, colocated with the Governor's representative, Mr. Addison Slayton, who will testify later, coordinated the State agencies. So we had a joint Federal/State operation from day 1.

We assembled all of the Federal agencies, and State agencies, and voluntary agencies. We had daily coordination meetings. As a matter of fact, our first organizational meeting was attended by Congressman Olin in its entirety. I certainly appreciate your attendance there and your support during that meeting.

All of the agencies there made presentations about what kinds of programs they have to offer victims, communities, businesses, and so forth.

We can summarize and group all of these programs into two general areas—individual assistance programs to help people, homeowners, businessmen, and public assistance programs to help communities, with repair, and restoration of public facilities.

Talking about each one briefly for a minute. The individual assistance program area is truly a one-on-one situation, wherein each victim is personally interviewed by the agencies that can provide the assistance. I facilitated that by establishing disaster application centers throughout the Commonwealth, with nine teams in 22 different locations, for a total of 90 center-days of operation.

We registered, at those centers, 7,557 victims. That started the process. In addition to that, I established a hotline for individuals, and families, and businessmen to call in if they had questions. A toll free hotline was established. We logged in 14,340 calls on that hotline. In addition to that, we initiated an outreach campaign to go out into the entire Commonwealth affected areas, over 51 counties and cities, knocking on doors, distributing fliers, and so forth. We published and distributed over 50,000 fliers with information, on where the centers were, the hours of operation, what the hotline number was, and so forth.

I established a media center at the disaster field office. We had a good relationship with the media, and they were very supportive with relaying information to the general public, about our operations.

We had at least eight formal press conferences. We published over 56 press releases. And we had dozens of interviews with myself, and other agencies, and State staff.

As far as the specific programs are concerned, in the individual assistance area, there are some programs that are administered directly by FEMA. There are some programs that are cost-shared, Federal, State, and local. And there are some programs that are administered directly by other Federal agencies, such as the SBA Disaster Loan Program.

FEMA, per se, administered only one program in its entirety, which was the Temporary Housing Assistance Program. That is, providing rental resources, or minimal repair grants to make homes habitable. Where resources were scarce we brought in 23 mobile homes, to provide temporary housing for the victims.

There are two programs that are cost shared, which we participate in, one being the Family Grant Program, which is a 75-percent Federal share, a 25-percent State share, and is administered by the State. The Public Assistance Program to communities is a 75-percent Federal share and a State and local share of 25 percent. Other programs are administered by other Federal agencies and voluntary agencies such as the Red Cross.

In terms of my priorities for this operation, which were to assess the damage, to assemble the Federal agencies and State agencies and voluntary agencies, to inform the public of the types of assistance that was available, to facilitate the contact between the victim and the agencies, and to monitor the progress, I term the operation successful.

I commend everyone, all the agencies that we have dealt with, the congressional delegation, the media, for their cooperation, and most of all, the spirit of the victims for their patience, and understanding, throughout the entire process.

I will be glad to answer any questions.

[Mr. Adamcik's prepared statement follows:]

PREPARED STATEMENT OF ROBERT J. ADAMCIK, FEDERAL COORDINATING OFFICER, FEDERAL EMERGENCY MANAGEMENT AGENCY, PHILADELPHIA, PA

I appreciate the opportunity to be here today to discuss roles and responsibilities of our agency, the Federal Emergency Management Agency, in disaster relief and recovery.

As implied in its title, FEMA is an agency which deals with a wide range of emergency management activities for disasters of all types, natural and manmade. Preparedness and response are two of FEMA's principal functions. For instance, several of FEMA's programs assist in identifying hazards and preparing for disasters. Among them are the Dam Safety Program, Earthquake and Hurricane Preparedness Programs, and the National Flood Insurance Program, which provides mapping for floodprone communities. These and other programs, such as the Disaster Preparedness Improvement Grant Program, the Hazard Mitigation Assistance Program, and the Civil Defense Programs, also assist State and local governments in preparing for disasters through planning. FEMA enters into funding agreements, annually, with States to improve capabilities to deal with a wide range of emergencies. Under such broad agreements over the past two years, FEMA has provided Virginia (VA) more than $4 million to improve its capabilities to protect people and property from a wide range of natural and manmade emergencies.

The Federal disaster relief program is designed to supplement the efforts and available resources of State and local government and voluntary relief organizations. The President's declaration of a "major disaster" authorizes Federal aid under the Disaster Relief Act of 1974 (Public Law 93-288) and triggers other Federal agency disaster assistance programs. The Federal response is coordinated by the Federal Emergency Management Agency (FEMA).

The primary responsibility in disaster response rests with the affected political jurisdictions and the State. When a disaster threatens or actually occurs, local officials take immediate steps to warn and evacuate citizens, alleviate suffering, and protect life and property. If additional help is needed, the Governor of the State may implement the State's emergency plan, activate the National Guard, or commit other State resources as the situation demands. Federal establishments, particularly military installations which are located in or near the disaster area, may provide immediate lifesaving assistance, and other Federal agencies may be able to provide assistance under their own statutory authorities, such as floodfighting by the Corps of Engineers. However, if the situation is beyond the capabilities of local and State forces, supplemented by limited assistance of Federal forces on the scene, the Governor may request that the President declare a "major disaster" under the authority of Public Law 93-288.

As you know, because of the severe and widespread damage in Virginia, Governor Robb requested major disaster assistance for the flood-stricken area. The President's November 9, 1985, major disaster declaration for Virginia triggered a broad range of Federal assistance for the affected communities and individuals.

FEMA's role in administering the disaster relief program involves both management and coordination. We administer PL 93-288 programs and we coordinate the Federal response. I'll first touch on the coordinating role.

Immediately following a major disaster declaration by the President, the Director of FEMA appoints a Federal Coordinating Officer (FCO). I was designated as the FCO for the Virginia disaster. As FCO, it was my job to (1) make an initial appraisal of the types of relief most urgently needed, (2) establish a Disaster Field Office (DFO) as the operational and coordination base for disaster reponse efforts, and (3) coordinate the administration of relief. I do not have directive or decisive authority over other agency programs, such as eligibility determinations, internal management, etc.

Our Disaster Field Office was established in Roanoke and was operational on November 13, 1985. My primary objective was to inform disaster victims and public officials of the assistance available and then to assist them in obtaining the aid to which they were entitled. Information was disseminated by FEMA through radio, television and newspapers, and mass distribution of pamphlets outlining available aid programs.

To make it easier for individuals to get information and apply for assistance, we operated 22 Disaster Application Centers in the disaster area. Representatives of Federal agencies, State and local governments and private relief organizations were available to register and advise disaster victims. We also operated a Hotline as another means by which disaster victims could learn of assistance available or make their needs known. Our victim registration process provides for close coordination among disaster relief agencies and organizations through colocation of staff, a standardized application, and sharing of application information.

At the outset, we had daily Federal-State coordination meetings to compare notes and discuss problems and issues. My counterpart, the State Coordinating Officer (SCO), Mr. Addison Slayton was appointed by the Governor and was my primary point of contact with State and local officials.

Turning to program management, that is, administration of PL 93-288 programs, there are two broad categories of assistance available from FEMA: Individual Assistance (aid for disaster victims and their families) and Public Assistance (aid to the State and local governments).

Individual Assistance generally requires priority in the early post-disaster period. FEMA's programs provide a broad range of assistance for individuals and families affected by the disaster. This help may include:

Temporary Housing Assistance - direct or financial assistance for disaster victims whose homes are uninhabitable.

Individual and family grants of up to $5,000 to meet disaster-related necessary expenses or serious needs when those affected are unable to meet such expenses or needs through other programs or other means.

Disaser unemployment assistance for those unemployed as a result of a major disaster.

Legal services to low-income families and individuals, and

Crisis counseling to relieve disaster-caused mental health problems.

FEMA is directly responsible for the administration of the Housing Program. FEMA does this by providing interim housing or financial assistance until, for many, their insurance settlement or SBA loan comes through with funds for permanent repairs to their home.

Concerning Public Assistance, State and local officials are briefed, as soon as possible after a disaster declaration, on the types of assistance available in the public sector and the application procedures. Eligible applicants are State agencies as well as political subdivisions of the State and qualifying private non-profit institutions within the designated disaster area.

Damage Survey Reports are prepared by Federal engineers. These reports, which document damage and recommend the eligible restorative work and eligible costs, are the basis for the project application. Grants are made on a 75% Federal/ 25% State and local cost sharing basis for debris clearance, emergency protective measures, and the repair or restoration of damaged or destroyed public and certain private non-profit facilities. Work is normally accomplished by the affected State or local government with their own forces or under contract.

Your Subcommittee may be interested in the following data concerning FEMA disaser programs assistance in Virginia as of April 1, 1986:

- Temporary housing assistance was furnished to 2,769 households at a cost of $4,164,200.
- Individual and Family Grant assistance has been furnished to 1,747 eligible applicants to date, in the amount of $5,066,746.
- Disaster Unemployment Assistance was paid to 1,122 applicants in the amount of $292,998.

- A crisis counseling grant was approved in the amount of $335,000.

- Public Assistance project applications totaling $18,945,479 were approved for 103 State and local applicants.

- Obligations to date for PL 93-288 assistance in Virginia exceed $28 million.

Thank you for the opportunity to submit this Statement.

Mr. **Mavroules**. Well, thank you very much for your prepared statement.

Let me assure all of you, and I think, Mr. Kulik, you referred to it, there is no doubt in our mind that you are good public servants; you do the very best you can, as we try to do. There has been no inference to the contrary. As a matter of fact, you, of course, understand that if the administration had their way, you would not have a job, because they want to get rid of the SBA and everything to do with it.

The first act of the new Director was to fire five regional directors. And he is trying to carry out some of the directives of the administration. He is trying to carry out a directive of the administration to get rid of the SBA totally. We are trying to stop that.

I want to assure all the people here that SBA plays a very vital role for the small business people of our country. As a matter of fact, if we do not have an SBA, you can kiss the Disaster Loan Program goodbye, because no one else is going to administer that program effectively.

I am going to ask short questions and ask for short replies, because we have many people who want to talk here this morning.

I appreciate what you have done, and what you are doing. But I think in Mr. Olin's opening statement, it says it all. And we have got to get some answers. I think Mr. Olin was very fair when he stated, "On November 4, 1985"—hear him correctly—"this area of western Virginia was devastated by the worst flood in recorded history. Several thousand people had to leave their homes, 10 persons drowned and hundreds of businesses were seriously damaged." And today we are talking 5 months later.

He is fair to state that, "Much of the mess and debris has been cleaned up." I understand you have a volunteer cleanup tomorrow, and I hope it goes well.

"Most people are back in their homes.

"Those eligible for cash grants have long since gotten their money.

"Most municipalities have received their emergency aid."

But it is the other paragraph that I want all of you to respond to. And I do not want to hear about the jurisdiction. I want to know what we can do together to get this other paragraph out of the way, and then we can help the people here in Virginia.

"But 76 percent of the individuals and businesses whose losses qualified them for a disaster loan from the SBA, have yet to receive anything." They have been qualified and they have not received a dime. And "they are desperate.' And no one understands why they have had to wait so long.

This is what I want to key in on. Why are we waiting when most of them have qualified? Please respond to that.

Mr. **Kulik**. Thank you, Mr. Chairman, for your assurances.

I have to answer it this way. When a loan is approved, the loan has to be closed. The disbursements that we make of funds are controlled disbursements. We do not issue checks for the full amount, sir. These are loans, the vast majority of which are considerably below market rate. When we have in the past issued checks for the entire amount of the loan, we have had applicants take the money, put it in the bank, put it in certificates of deposit until they were ready to use it. They were drawing interest from these CD's, and from bank deposits at a much higher rate, than they were paying the Government.

We were chastised for this by the General Accounting Office, by certain congressional committees, and by our own inspector general as adding to the Federal deficit. We have adopted the approach of controlled deposits. That is, as the money is needed, as the money is spent, as the debts are incurred, we will make the disbursements. However, no disbursements can be made until the loan is closed.

Generally speaking, any loans of $5,000 or more are required to be secured. Loans of $5,000 or less are unsecured loans. In that instance there are three documents that the applicant must return to us: The loan agreement, signed; the note, signed; and, if appropriate, flood insurance or evidence of flood insurance.

If the loan is a secured loan there are additional requirements. For the most part, on home loans the security we are talking about are second or third mortgages on homes.

We prepare the deed of trust. We prepare the mortgage and send it to the applicant. The applicant has to file that; that is record it, and give us evidence that it was done. Depending upon the amount of the real estate loan or the real estate portion of the loan, we will require either title insurance, title search, or a mere affidavit of ownership. We require building permits. We require all of the things that we believe a reasonable, prudent lender with real estate as security would require.

Until these documents are returned to us we cannot make any disbursements.

Mr. **Olin**. Excuse me, Mr. Kulik. If I could, Mr. Chairman, if I could interrupt?

Mr. **Mavroules**. Please.

Mr. **Olin**. On the point you are talking about, one of the things I did right after the flood was to call all the municipalities and find out what the situation was. I then called and talked to the leader of substantially all of the Federal agencies that were going to be involved in rendering disaster relief.

I called you, Mr. Kulik, toward the end of that week. I didn't call you first, but I called you I think from my home. It would have been Friday or Saturday of that flood week. I asked you what you were going to be able to do to process flood loans promptly. I said, "Can you get loans out in 30 to 45 days?" And you said, "No. Our loans take 60 days. We will do the best we can," you said, "but you can count on 60 days. We will do it in 60 days."

In my naivete, I thought you were talking about getting people their money. You were not talking about that at all. You were talking about some measurement you were keeping youself, those 60 days.

Why is it that you told me people were going to get their loans in 60 days and you had no intention of doing that, and you told everybody else that, you and your people?

Mr. **Kulik**. Mr. Olin, if I gave you the impression or the opinion that we were going to have the money to the people in 60 days, then I apologize. That is not our goal.

Mr. **Olin**. You did not specifically say that. But I said, "How long is it going to take you to process loans?" Maybe that was not, maybe I was not smart enough to say that the right way. I am sorry about that.

Mr. **Kulik**. Mr. Olin, my answer——

Mr. **Olin**. Any human being would have known we were talking about the money, that the loan is not finished till the people get the money; is that right?

Mr. **Kulik**. Mr. Olin, my answer to you, and I am very careful about this matter, would have been that we, that our goal is 60 days until approval, that is until final action, which is approval, decline, or withdrawal, and the ball is back in the applicant's court.

Mr. **Olin**. Let me just ask you another question at this point, if I may interrupt you. I am not going to pursue this too far here.

We have asked Mr. Kulik and Mr. Nash to come stay with us to the end of the meeting so we can hear the testimony and we will find out what people are saying, and we will ask some of these questions again. But why is it that the loan applicants are coming to me and saying, "Mr. Olin, they processed the loan. We supplied everything that they wanted to SBA. The SBA said the loan is approved. After the loan is approved comes the pack of papers that describes the rest of the terms and conditions, undiscussed prior to the loan approval." Why is that? Why do you do business that way? Why is that the way to treat a disaster situation?

Mr. **Kulik**. When we approve a loan, Mr. Olin, we draw up a loan agreement. The loan agreement contains certain provisions that we believe are necessary from a credit standpoint and some that are necessary as a result of legal requirements.

Mr. **Olin**. Why do you not tell people all the terms at the outset so they know whether they are going—whether to make things sensible or not? Why do you not tell them that?

Mr. **Kulik**. Mr. Olin, we cannot tell people the specific terms of their loan at the outset because we do not know what they are until we have reviewed the credit on a case-by-case basis. We cannot give applicants the copies of our loan agreement with all of its possible paragraphs, but that would be meaningless.

Mr. **Olin**. Then why do you tell them that their loan is approved? The loan is not approved because you have not settled on the terms.

Mr. **Kulik**. The loan——

Mr. **Olin**. Could not have been approved.

Mr. KULIK. We have a practice, sir, and I believe Mr. Nash can testify to this, we have a practice that at the time of approval the applicant is called, we attempt to make a telephone call to discuss the major terms that will be in the loan agreement. If there is any problem then, we attempt to work it out on the telephone. We do not, sir, go through every single paragraph in the loan agreement.

Mr. OLIN. You will hear more about this.

Mr. MAVROULES. Jim, let me cut across this. Of the 76 percent——

Mr. OLIN. Yes. I want to change the subject anyhow.

Mr. MAVROULES [continuing]. The 76 percent that Mr. Olin is referring to that have been approved and have not received a dime, can you give me an answer this morning as to when they are going to receive their money?

Mr. KULIK. That depends on when they get the loan closing documents back to us, Mr. Chairman.

Mr. MAVROULES. When is that going to be? You mean they have the documents now?

Mr. KULIK. They have the documents now.

Mr. MAVROULES. It is their action to come back to you?

Mr. KULIK. Yes, sir.

Mr. MAVROULES. Are they aware of that?

Mr. KULIK. Yes, sir.

Mr. MAVROULES. They are aware of that?

Mr. KULIK. Yes, sir.

Mr. MAVROULES. OK. We are going to hear from some of these people. You are going to remain until the end of the hearing.

Mr. Kulik. Yes, sir.

Mr. MAVROULES. And then reply, perhaps, to some of the statements that will be made. I want you to hang around.

Mr. KULIK. I would like that opportunity.

Mr. OLIN. May I ask a couple more questions?

Mr. MAVROULES. Of course, Jim. Go ahead.

Mr. OLIN. I will not stretch this out too much.

Mr. Kulik, I want to thank you for responding to my request made here about a week ago that we set up an office in Roanoke—and we might want to do this elsewhere—but to try it out, where you would bring up a loan officer and a lawyer qualified and authorized to close loans, or at least to negotiate the closure. And then you sent me a list of 150 names of loan applicants to call; they are in the area. My office called 60 of those that were close to Roanoke to try it out. Of the 60, about 30 or so showed up.

And the last 3 days you have been running that loan closing office in the Poff Building. The feedback I have on it is pretty good.

Does that kind of a process seem to be in your mind about what is needed at this point to get these loans closed? Or have you reached any conclusion on that?

Mr. KULIK. Mr. Olin, may I have Mr. Nash answer that?

Mr. OLIN. Sure.

Mr. NASH. Mr. Chairman, Congressman Olin, that is a good idea. We have been doing that. As you know, we have had a person here in Roanoke since the inception of the disaster. We have continued——

Mr. **Olin**. But, Mr. Nash, that person has not had any authority to discuss the closing of loans, reach any agreements, or do anything except listen to people.

Mr. **Nash**. That is correct, sir.

Mr. **Olin**. And say, "I will refer it back to Atlanta." That is not closing a loan.

Mr. **Nash**. He cannot make changes; that is true.

Mr. **Olin**. Right.

Mr. **Nash**. In the terms or the collateral of the loan. He does not have the individual's case file here so he could not make an intelligent decision on a conversation with an applicant. However, when the documents are mailed to the applicant there, we hope that we have included clear instructions on execution.

Mr. **Olin**. Mr. Nash, if I could interrupt you.

Mr. **Nash**. Sure.

Mr. **Olin**. I will ask you this question at the end of the hearing: What is your plan to get these 1,300 loans closed? And I would like to have a specific answer to that question. How are you going to do it? How are you going to do that like a bank would do it?

A bank, a bank is in business of placing loans and making money on the interest. You do not. The banks close loans. They close them in 5 weeks, 2 weeks sometimes, sometimes it takes a little longer. And you will hear from some bankers today. It does not take the bankers that long. They do not lose money on their loans. They do not have a big default rate. SBA can do the same thing. So I am going to be asking you that.

Let me just change the subject, Mr. Chairman, so we can get along. I have got two more things that I want to say.

One is that in asking people to come to this hearing today, both individuals and business, I had a lot of people say, this is, say, half a dozen people or more, say to me "I am afraid to come to that hearing because I think it might prejudice the approval of my loan."

We have some people here that are going to be on the program that have not yet got their loans approved. I would like to have your assurance that no one is going to be prejudiced with regard to his loan, his or her loan, because they might have made contact with my office or they might have shown up here, or done anything else with regard to my effort, to my push in this subject.

And I think there are quite a lot of people that are afraid of that. And I wonder, Mr. Kulik, if you could comment on that question?

Mr. **Kulik**. Mr. Olin, not only do you have my assurances, but I will also assure you that if in fact anybody in this organization takes any steps against any applicant or any borrower because they commented to you, to any other Congressman, to any other proper authority or because they testified here today, they will not be a member of this organization for very long. And I will very simply state for the record my phone number in Washington is 653-6879. And if anybody believes that reprisal is being taken against them, I request that they call me directly.

Mr. **Olin**. I appreciate that comment, and I commend you for it. I know that you will stick with it.

Just want to make one more observation. It has come back to my attention that the employee who works in the Poff Building for you, Mr. Nash, has upon occasion in the last 2 weeks at least made derogatory remarks with regard to my staff and my involvement in trying to get these loans closed. He has made those statements to applicants. And I object to that. I do not condone it in any way. I do not think you do. I wish you would put a stop to it.

Now I would like to go ahead with the hearing, Mr. Chairman.

Mr. MAVROULES. Thank you very much, Mr. Olin.

Thank you very much for your statement, Mr. Kulik, on the reassurances.

Harley, would you have any questions at this point?

Mr. STAGGERS. If I could take maybe a minute?

Mr. MAVROULES. Of course.

Mr. STAGGERS. I will try to be as quick as I can.

Mr. Kulik, you can be assured that I am not going to blame you for the sound system. I know that that was something that was someone else's fault.

But, you know, I have got to agree with your statement that most of the people in the SBA are working for the people. The people out in the field I have no doubt are professionals.

I do have some problems, though, with some of the evidence.

Mr. Olin made a statement about the intimidation. Hopefully, when we get to West Virginia one of my constituents will testify that he was told, "I suppose that you know what will happen if you testify at this hearing," by an SBA official.

Mr. OLIN. Could the gentleman yield?

Mr. STAGGERS. Sure.

Mr. OLIN. Was he told that by an employee of the SBA?

Mr. STAGGERS. That is what I was told. I do not know whether he is going to testify to that. But that is what he told our office.

Mr. OLIN. Thank you.

Mr. MAVROULES. I might remind both my colleagues that if indeed you have the facts on that and the people would come forth, that I would make that part of the record. And we could oversee that problem also.

Mr. STAGGERS. Hopefully, that will be part of the record.

Mr MAVROULES. Thank you.

Mr. STAGGERS. Hopefully, the gentleman will testify.

Mr. MAVROULES. Thank you.

Mr. KULIK. Mr. Staggers, even if the gentleman for some reason feels that he would not like to testify, if he will tell me that privately, I will take care of it.

Mr. STAGGERS. I will tell you if he does not.

If I could switch to Mr. Adamcik, you mentioned that, and hopefully I misunderstood this, you mentioned this was truly the President's program. Hopefully, you meant that in a different sense, because I really feel this is the people's program, this disaster loan.

But one thing that you mentioned, you have no authority. But under the law are you not the President's spokesperson?

Mr. ADAMCIK. I have no directive authority or decisive authority over any other Federal agencies' programs.

Mr. STAGGERS. But are you not the spokesperson?

Mr. ADAMCIK. I am the head Federal official, if you would think of it in those terms.

Mr. **Staggers**. But the President has authority. And are you not representing the President in that position?

Mr. **Adamcik**. I am representing the President. And the President does have authority. But the authority which he has been delegated to me as FCO does not include any directive authority over another Federal agency.

Mr. **Staggers**. Thank you, Mr. Chairman.

Mr. **Mavroules**. Thank you, Harley.

Thank you, gentlemen, very much. And if you can hang around, Mr. Adamcik, we would appreciate it. Or do you have another commitment?

Mr. **Adamcik**. Yes; I do.

Mr. **Mavroules**. Well, thank you very much for your testimony.

Mr. **Adamcik**. Thank you, sir.

Mr. **Mavroules**. The next panel, Ms. Donna Stone, DANE Construction, Inc., from Roanoke, VA; Mr. Charles Cole, Overhead Door Co., Roanoke, VA; Mr. Bill Mullins, Virginia Grounds and Maintenance, Roanoke, VA; Ms. Tammy Johnson, Roanoke Valley Mental Health Services, Roanoke, VA; and Ms. Katherine Elliott, caseworker for the office of Congressman Jim Olin, Roanoke, VA.

If you would come forward please.

Mr. **Olin**. Kandy is giving out the name tags. Do them in the order that you were announced.

Mr. **Mavroules**. Thank you very much for your appearance here this morning. Again, I would ask you if you could condense your statements. We do want to ask you some questions so we can have a very meaningful meeting.

Ms. Stone, if you would begin your testimony, please.

TESTIMONY OF DONNA STONE, DANE CONSTRUCTION, INC., ROANOKE, VA

Ms. **Stone**. Good morning.

Mr. **Mavroules**. Good morning.

Mr. **Olin**. Good morning.

Ms. **Stone**. I was the 18th person right here at the Salem Civic Center to have my initial application processed. I spent a total of 6 hours and 15 minutes in this civic center.

At the interviewer's desk I immediately realized I was in trouble because his experience in disaster was only a brief briefing. However, I was assured there would be more paperwork involved since our business was located in our home, but our loan applications would be approved and I would receive a check within 60 days. Receive a check within 60 days.

Knowing we could last 60 days no matter what, and since our business is seasonal, only 9 months a year, we took our savings and began to put our lives back together. Because of our great need it was obvious that processing the papers as quickly and completely as possible would be of benefit to us. All papers were triple checked and copied, then stapled and mailed at the post office.

Within a week, the first of nine investigators arrived. Several days later a letter from FEMA arrived dated November 17, saying that our house was habitable and we were ineligible for any of their assistance. It did not seem to matter that we were still knee deep in septic water and the electrical boxes holding melted breakers.

I kept after FEMA and Roanoke City. And finally, 2 months to the day of their first dated letter they realized we really were in need of repair.

About that same time I started receiving checklists from the SBA saying how I had not completed the necessary papers. We simply went to our copies and recopied the missing papers and returned them time after time. As an example, we have signed and returned eight sets of the resolution of the board of directors.

Finally, on Saturday, January 11, 1986, at 10 a.m. in the morning a Ms. Jackson called from Atlanta and said we had been approved. On Thursday, January 16, 1986, I received a letter saying that we had been turned down for a loan. I felt sure there had been some computer mistake, because even the Government could not be so cruel as to approve us by phone and 5 days later change their mind.

I called everyone that I could.

After contacting Congressman Olin's office a loan officer named Jack Camp called on January 31, 1986, and said we must request in writing a reconsideration, but he could and would take our request over the telephone. I was told Ms. Jackson had no authority to tell me we had been approved since she was just a loan officer.

Two weeks later we received letters saying our loan request was approved and we would be receiving further instructions in 5 to 10 days. The further instructions arrived 3 weeks later.

I called Atlanta to see if we signed the loan and authorization paper would we receive the initial check. I was assured yes, and the final closing papers would come in another 5 to 10 days, but the initial check would be mailed as soon as Atlanta received the loan and authorization papers. This never happened.

One set of closing papers came 2 weeks later, another set 2 days later, and the third set 4 weeks later.

The instructions on these papers were very minimal; it was a little small slip of paper with inaccurate information on it. Quickly I gathered all the necessary documents, some took me as much as 14 days. There were things to be mailed to the mortgage company, the insurance agent, and Richmond. Locally, I had to secure permits, visit my CPA, attorney, and place liens on property at the courthouse.

Little consideration was even given to our sewer problem. Initial estimates have quadrupled from what they were in the very beginning.

The SBA to me leaves a lot to be desired as far as how they determine where this borrowed money must be spent. I will give you an example. I have been allocated $1,500 to landscape, but only $200 to fix my driveway. Since we are in business, a driveway is far more important to get our customers to us than it is for them to see flowers.

I was given a lot of erroneous information from the SBA, including April 7, Monday, of this week.

So far we have spent over $500 out of our pocket to complete all of these SBA papers. I am a little sick and tired of hearing about under normal circumstances my loan and money would have been received within 60 days. A disaster is not a normal circumstance.

I also was very upset when I read in the paper last week how a spokesperson from the SBA was here complimenting all the loan officers from the local banks. And in his little comment it said, "I would love to take people by the scruff of the neck, the loan applicants that did not fill out their SBA papers, and that are sitting on their duff."

Well, I am one person that has thoroughly followed through with my SBA papers. And it is not a good thing to be home sitting in sewer water, reading the Roanoke Times and reading about a spokesperson that is going to take me by the scruff of the neck and get me to finish my papers.

Mr. MAVROULES. Thank you very much, Ms. Stone.

We would now move to Mr. Cole for your testimony, please.

TESTIMONY OF CHARLES T. COLE, PRESIDENT, OVERHEAD DOOR CO.

Mr. COLE. I would just like to read my testimony. Some of you have a copy of it. And it is more of a documentary of the sequence of events from the flood until now.

At your request we wish to outline the sequence of events following the flood of November 4, 1985, at which time we received approximately 3 feet of water in our warehouse and office at Overhead Door Co. in the Roanoke Industrial Center, which is on Ninth Street, SE., and is a very low area.

Our fiscal year 1984–85 had ended on October 31, which was the previous Thursday, I think. And we had our most profitable year to date. The flood welcomed our new year.

Of a workforce of nine trucks, three were in our flooded lot. Being a work day, the rest of the trucks were out on job sites or on the road.

For the 2 weeks following the flood, approximately 3 of our trucks and 6 of our 15 installers continued to perform emergency service for our customers who were also flooded. Our normal installations were postponed indefinitely. The remaining installers, a staff of 4 people, and 10 volunteers—these are volunteer neighbors of mine, these are not people I did not know—contributed 150 man-hours, worked to clean our grounds and reconstruct as much of the inventory as possible.

We chose to clean, reconstruct, and repair our electric operators and garage doors to be sold at a reduced price and with extended warranties in lieu of discarding them and purchasing new inventory.

Now, you may question the extended warranties. Instead of a 2-year warranty we might say it is good for 5. This is to help entice them into taking the product.

Part of this decision was because Overhead Door Corp. of Pennsylvania, our supplying factory, was in the middle of their busiest November and December in the history of the corporation. It is a factory division of the Dallas corporation out of Dallas, TX. Thus publishing 6 weeks to 2 months deliveries to us which were unacceptable to our needs.

Normal delivery, by the way, from the factory right now is 2 weeks.

Our billings for November 1985 were one-fifth of our normal average billing for the rest of 1985. So you can see we either were not doing the work or we were not finishing work that could be billed.

We received a loan application package from SBA and submitted it for $72,593 on January 10. Needless to say, I went right to the last minute to do it, but this was my time and in the middle of other things also.

At that time, SBA form 1368A for economic injury was not in the package I received. So I assumed, when I checked at the top of the loan application, that my damage was physical. There was no explanation of what economic damage was. Ignorance on my part? Maybe so.

On January 15, I received notification from the SBA in Roanoke that $23,000 of our request was deleted and categorized as economic injury. I was then given another package including SBA form 1368 as well as the original six forms I filled out and instructed to reapply for economic injury by August 10, 1986. To date I have not applied for economic injury.

On February 7, we were inspected by Dale Gorden. This was approximately a month after we applied. We answered his questions, toured the grounds, and he left without comment after about 30 minutes.

On February 28, we were advised by Rick Williams of SBA in Atlanta they had approved $27,000 of our original $72,000 request for 3 years at 8 percent. No explanation was given for the reduction. Note that from previous comments this is within the 60-day period from when I applied on January 10. So they did do what they said they were going to do there as far as notifying me.

However, it was April 1, before I received the SBA loan authorization and agreement in the mail, first-class mail.

On April 3, we met with Congressman Jim Olin to discuss the series of events since the flood.

On April 8, I met with the SBA representative in room 112 of the Poff Building. At the time he explained to me that the 8 percent in lieu of 4 percent, as most of the people around me in the meeting were getting, was due to my capability to borrow on the open market, and that further loan amount reductions were from deleting requests for lost labor and income during cleanup time. The SBA representative agreed that portions of the disapproval may be reconsidered. And he is notifying the Atlanta office to review it again.

On April 9, 1986, we received loan closing documents. I have taken no action on them at this time.

This concludes my outline. In closing I would like to say "thank you" to the Colonial American National Bank. Without them, I would be in trouble.

Thank you, sir.

Mr. **Mavroules**. Thank you very much, Mr. Cole.

We will continue with Mr. Bill Mullins.

TESTIMONY OF W. MURPHY MULLINS III, PRESIDENT/OWNER, VIRGINIA GROUNDS SYSTEMS

Mr. MULLINS. Well, my story is not really a whole lot different than Charlie's next to me here. We are neighbors. And we are in the same industrial park. Our offices are 200 yards apart. So we experienced the same water and flood damage and as far as depth and mud and all, everything that goes with it.

I know we are in a hurry here, and I will move right along into basically what we did as far as cleaning up. We will just pick it up there and go ahead with it.

We did experience 5 feet of water in the warehouse. And we had four trucks and about $150,000 to $175,000 worth of grounds maintenance equipment besides the trucks inside the warehouse. And the insurance verified that everything was a total loss. So all that could be provided.

Now, what we decided to do was, instead of filing right away, we talked to them at the Sears Building when they were here, the SBA. We talked to the SBA officials and they did assure us we would have help. So rather than filing our loan package right away, we knew that it would be a few weeks and the equipment could not last but a very short time, a few days. So we went ahead and starting cleaning up ourselves to find out exactly what we spent before we applied for any loan.

And what we did, we started on November 7, and we worked from there till the end of the year virtually 24 hours a day, tearing down every piece of equipment down to a weed eater, all the way apart, and putting it back together. What I did was I worked my people 24-hour shifts—12-hour shifts, 24 hours a day. And we spent $60,000 in labor for that period of time versus $17,000 the year before. And we spent an additional $40,000 to $50,000 in parts and materials.

Mr. MAVROULES. What was the second figure?

Mr. MULLINS. Sir?

Mr. MAVROULES. What did you spend on parts?

Mr. MULLINS. Parts and material was between $40,000 to $50,000. But I had no time to wait a few weeks on the SBA, much less a few months. I had to work right away or the equipment would have been totally lost, ruined.

So at the end of 1985 I got together with my CPA and we figured our total loss for 1985, with the flood in that loss.

We turned it in as our 1985 CPA financial statement, along with the loan package, before the deadline in January. About 3 weeks later a verifier came by to the warehouse, and of course everything was cleaned then. And he said, well, it looks like you got things in pretty good shape. And I said, yes, we do. Here are some pictures. And I handed him a photo album of pictures I had made on November 5. And he said, oh, I see.

And he proceeded to verify $160,000 loss, which I had insurance of $53,000, and made me eligible for the balance in the loan, a hundred and a couple thousand dollars.

So he verified that I did have the loss and I would be hearing from Atlanta in 2 to 3 weeks. A month went by and we called Atlanta and found out exactly where my loan package was in the process. And it was with a gentleman by the name of Mr. Clark Williams.

He was the loan officer down there. And Mr. Williams informed me that he was working very diligently and even, in fact, working on Saturday to process the loan on through. So I, rather than crowd him on a Friday afternoon, decided to just wait a while or wait a few days.

And about a week went by and I had not heard from him. He had assured me he would call me back. So I returned his call to find out where the loan was at that time. He said that he could not comment on it, that it had been moved on in process to his superior. At that time I asked for her name. I do not have it with me right now. And I really apologize. I should. But he gave me her name and moved me to her phone. I asked her about it. And she said I would be receiving a written statement about my loan request in a day or 2 because she had just mailed it.

Well, mail service being whatever, in 4 or 5 days it was there.

So the loan package came from a man by the name of Mr. Vernon Wik. Mr. Wik informed me in the letter that my loan had been turned down. This letter was just a few weeks ago. So I called Mr. Wik immediately and asked him on what basis did he turn the loan down, and reading from that letter he outlined that we were incapable and unable, he felt, to repay the loan.

So I asked him why did he think that? And his statement to me was, "You showed a $95,000 loss in 1985. Your 1985 financial statement is a disaster. How can you repay this loan?"

I said, "Mr. Wik, we had a flood in 1985." [Laughter.]

"The flood losses are in the statement. That is why it is so bad."

I am, this is on the line here. I am not exaggerating anything by any means.

Mr. **Mavroules**. Nice to see you still have a sense of humor.

Mr. **Mullins**. Yes.

Well, the point being we did not need the SBA, we were using the SBA, we needed them to tell us what they were going to do. We will survive whether the SBA helps us or not.

Mr. **Mavroules**. Right.

Mr. **Mullins**. We needed them; so it does help with my sense of humor.

So Mr. Wik, I explained to him the financial statement and went over all the aspects of what was going on. Then he said, "Oh, I see." He assured me if I would resubmit that it would be given the most urgent, pressing case there and I would get an answer.

Now, the other day down at the courthouse, at the Poff Building here in town, I met with a Mr. Stephen Rohr. I explained to Mr. Rohr just exactly what I have explained to you all. Mr. Rohr assured me that if I would resubmit my case by Monday and outline and address all the reasons for the first denial that I should have an answer by the end of the week and should be able to receive some flood money or at least be approved by the end of the week. He was apologetic for the denial for those reasons.

Mr. **Olin**. Mr. Mullins, could I break in and ask you did he say he would allow the expense for labor and parts that you had expended?

Mr. **Mullins**. Yes, sir. He did.

Mr. OLIN. He did.

Mr. MULLINS. He did say, Mr. Rohr did say that since I had spent my money repairing, my own money out of the company to repair the equipment, there was no need for me to buy new equipment, that he would——

Mr. OLIN. What had they told you before on that particular thing?

Mr. MULLINS. Well, OK, before that now the whole, the SBA program, they refused, even Mr. Williams when I talked to him the first time, and the people at the Sears and Roebuck Building, I decided to go ahead with the procedure, but they even told me out there as early back then that I had to throw all of my equipment away.

They did not say it that way. Let me rephrase that. They said I had to buy all new equipment. The loan money would not be able to be used to redo equipment you now have. You have to purchase new equipment with it.

Now, we had perfectly good equipment. The equipment was valued at $160,000 on the used market. $160,000 would not touch my equipment on a new market, and there was no way that I was going to throw away perfectly good equipment after we rebuilt it and spent $60,000 in labor and $40,000, $50,000 on parts and material, throw it away or put it on the auction block and turn around and buy brand new equipment.

You see, in my business it is not the equipment. The thing here that bothers me is it is the time element. It is the time element. We are running wide open in the spring right now. We have got crews running every day. We are still having little problems, little nitpicking problems with the equipment as far as wires shorting out or something, you know, small problems.

The SBA, my beef with them would be, well, one, the humorous side about the reason they turned me down, but they were apologetic and they fixed that. My beef would be do not tell us one thing and do something else.

They explained to me at the Sears Building, the verifier explained to me I would hear in three weeks. If that would not have been the case then we would have had an auction, I would have taken the insurance proceeds and we would have started from the word, go. But they did not do it that way. That is the main problem.

But that, I do appreciate the opportunity to come and speak to you.

[Mr. Mullins' prepared statement follows:]

COLONIAL LANDSCAPING COMPANY, INC.

DBA

VIRGINIA GROUNDS

commercial landscape

SYSTEMS

Outline of SBA Loan Complications

for

Congressman Jim Olin

April 7, 1986

(703) 344-3349
P.O. Box 8244
Roanoke, VA 24014

April 7, 1986

Congressman Jim Olin
B363 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Olin:

I did appreciate the opportunity to be able to meet with you the last week of March concerning my SBA loan package (file # 2218-2185). You have shown a great interest in our community, our Industrial Center, and Virginia Grounds Systems. You certainly have been more than kind and helpful in working with us to achieve our goal of a definate decision from the SBA.

Please find enclosed in this package a case history of Virginia Grounds Systems with a brief description of the early years, a description of the trend leading up to the flood, the actual flood period itself and the events that followed the flood concerning the SBA and what we were told by the SBA concerning our flood disaster loan relief money, along with our condition at the present time.

Thank you for your time and consideration.

Sincerely,

W. Murphy Mullins III

W. Murphy Mullins, III.
President/Owner

wm/kc

In 1980 Virginia Grounds Systems started as a very small lawn maintenance company then known as Roanoke House and Lawn. I owned and operated this company by myself. That company started its first year out with five residential lawns to mow. The following season, I procurred more residential accounts and by the end of that year my company's gross sales totaled $8,000.00.

Through the next winter I worked on new and innovative ideas to present the lawn care business to the Roanoke Valley and at the onset of the following year my company held sixty-five residential accounts. That year I added more people to my payroll and purchased additional equipment. That year showed an increased gross sales to $25,000.00.

I continued to work, stressing customer service and marketing the lawn maintenance business in a way that was more satisfying to customers than that of the past. My new methods also proved more profitable than ever before for the lawn care industry. The following year brought our first commercial contract Boddie Noell Enterprises, the owner of the Hardee's Restaurants chain. They entrusted me with nine of their local Roanoke stores. I worked diligently throughout that year to prove to Boddie Noell that contract service lawn care could do the optimum care of their property and perform to their satisfaction. That year we showed gross sales of $50,000.00. The following year we picked up sixteen additional Hardee's stores along with other solid commercial contracts such as all the Roanoke Dominion Banks and Eli Lilly and Company. To this day we still hold every commercial contract that we have ever been awarded.

In 1984, Roanoke House and Lawn merged with the corporation Colonial Landscaping Company, Inc. to form our company today of Virginia Grounds Systems. My partner Rick Ellett, former owner of Colonial Landscaping Company, Inc., had delt mainly with landscape installation and construction and together with my lawn care company we worked diligently to build the largest grounds maintenance company in Southwest Virginia.

After finding that the grounds maintenance business was far more profitable than the landscape construction and installation business, I purchased my partner's half of the corporation in August of 1985 and became sole owner and operator of Virginia Grounds Systems. Our gross sales for 1985 totaled $306,000.00

On November 4, 1985 the Roanoke Valley experienced the most devastating flood of its history. I left our warehouse that morning at 11:30 a.m. The river, at that time, was not out of it's banks. It was raining but there did not appear to be any imminent danger. I returned at 2 p.m. to find that I could not get within 200 yards of the warehouse. The river was well out of its banks and there was four to five feet of water inside my warehouse. When the water receeded the next morning enough to enter the Roanoke Industrial Center, where my warehouse is located, my employees and I found that every piece of equipment I owned had been totally submerged under water. A six to eight inch thick layer of mud remained on everything.

Because Virginia Grounds Systems is basically an equipment oriented service business, there was no time to wait for insurance adjusters (who were badly overworked during that time) or to see what federal agencies were going to do to help. The equipment was rusting before our eyes. Virginia Grounds is comprised of equipment and personnel. We are a service oriented business and our customers in the Roanoke Valley depend on our equipment, as do our employees rely on it to provide a living for them and their families. We had no choice but to use our own operating money to save the life of our company.

From November to the end of the year in 1985 my employees went over, rebuilt, and totally refurbished $150,000.00 of grounds maintenance equipment and four trucks. Due to the time element two additional trucks could not be saved. My employees literally worked twenty-four hours a day in twelve hour shifts. They knew that they must, simply because had they not, there would have been no company for them to return to.

Under the consultation of our CPA, we decided that the best thing to do, since the insurance proceeds we had against our losses were less than one-third of our expenses, was to wait it out to see exactly what this flood would cost us in total to get back to the point of operation. We would then do an end of the year financial statement so that we could have a total picture of our financial loss after the flood. Using this financial statement as a basis, we submitted our SBA disaster relief loan application before the January deadline. We received verification that our loan package was complete and that it would be processed in three to four weeks. A verifier was sent to our area. After careful examination of our physical facilities and our flood era records, he indicated to me both at that time and during a later phone conversation that we truly showed eligibility for a $100,000.00 loan request. He assured us that we would receive the help we desperately needed within three weeks. After three weeks passed without notification from the SBA we began to inquire as to the status of our loan.

It was now February and our financial condition was declining rapidly with the winter being a slack period for us due to our primarily seasonal nature. I located our loan application on the desk of Mr. Clark Williams, a loan officer for the SBA. I explained to him the need for his most diligent and speediest consideration of this loan package. He assured me that he had been working overtime and would infact examine this package on Saturday morning. A week elapsed before I called Mr. Williams back. He stated that he had just recently had time to review our application but had not yet made a decision. At this point I inquired as to who Mr. Williams' supervisor was and could they give me an answer more rapidly, as the mowing season was now less than one month away. Upon speaking with Mr. Williams' supervisor, she informed me that my loan request had been denied but could not tell me why over the phone. She did tell me however, that I would be receiving in the mail a formal denial with explanations as to why my request was denied.

A week and a half later, I received a notification from Mr. Vernon Wik informing me that my request had been denied due to insufficient income to repay the loan. Upon receiving this I called Mr. Wik and asked him for his basis on the decision that we were unable to repay a $100,000.00 loan. He informed me that my 1985 financial statement was not strong enough to guarantee repayment of the loan amount requested due to a $95,000.00 loss for the year. I tried to explain that the loan's purpose was to recoup that $95,000.00 loss that we showed due to the flood as we had used our own operating money to pay for parts and labor to rebuild after the flood. He stated that he would be glad to resubmit our loan application if I would prepare a 1986 projection for him.

At this point eight to ten weeks had elapsed since the verifier for the SBA had told us three. Mr. Wik's assurance that our flood related losses would be taken into consideration upon resubmitting our loan application resulted in my total frustration with the SBA and its channels to provide help for flood victoms.

I had been led to believe by SBA officials that I was a definate candidate for federal disaster relief money and my management decisions throughout the sixteen weeks following the flood were based on those predictions. Recently I was told that if I was to receive any money from the SBA that it must be spent on replacing lost equipment irregardless of the fact that we had just spent thousands of dollars refurbishing our old equipment.

As of the beginning of April we have for the past several weeks been "on season". We have potentially ahead of us the most successful year yet in business with our gross sales projected at $550,000.00 for 1986. We are however, teetering on the brink of bankruptcy. We spent money rebuilding our equipment in labor and parts that should have gone to our creditors. We are now because of that, seriously behind in our payments to them -- all of which have been extremely understanding. Our largest creditor, the Internal Revenue Service had been more than lenient by granting us several extentions. We cannot, however, or do we expect our creditors to wait much longer. It has become increasingly difficult to meet our payroll and we desperately need assistance, not to buy new equipment--but to satisfy past debt created by the flood.

We greatly appreciate this opportunity to present our dilemas to you and we hope that there may be some recourse to preserve the life of my struggling business for myself and my nineteen employees.

Thank you.

Sincerely,

W Murphy Mullins III

W. Murphy Mullins, III.
President/Owner

Mr. Olin. Could I ask you just one question?

Mr. Mullins. Sure.

Mr. Olin. When do you need to get some more working capital?

Mr. Mullins. Well, our——

Mr. Olin. You do not have to give me an exact date.

Mr. Mullins. All right. Our billing system, of course, you know, is like anybody in business I guess. We do the work in March, bill at the end of March, get paid the 1st of May within 30 days. Our payroll runs $20 to $30 thousand a month. As far as working capital, we spent all our working capital from the winter. Right now we have a little bit to hold us over, but I needed the money 2 weeks ago, 3 weeks ago. So I need it, to answer your question, I need it in the next month to really do any good without me taking other measures, without me taking and going to the bank. I will need the money, have to have the money by the 1st of May.

Mr. Olin. You will have to go to a commercial bank if they do not act——

Mr. Mullins. Yes.

Mr. Olin. Within about a month? You need cash in a month?

Mr. Mullins. Yes. Yes.

Mr. Olin. Well, I hope they can figure out some way to take care of you. I would not be at all confident of that.

Mr. Mavroules. Well, I am sure we are going to have some response to that——

Mr. Olin. Right.

Mr. Mavroules [continuing]. Jim, when the SBA officials come back on in the final panel.

Mr. Olin. I apologize for breaking in.

Mr. Mavroules. Not at all. That is what we are here for. Break in at any time. That includes you, Harley.

I would like to thank you very much for your candid statement, Mr. Mullins.

Ms. Tammy Johnson, if you would proceed, please?

TESTIMONY OF TAMBRIA A. JOHNSON, DISASTER SERVICES COORDINATOR, MENTAL HEALTH SERVICES OF THE ROANOKE VALLEY, ROANOKE, VA

Ms. JOHNSON. My name is Tambria Johnson. I am the coordinator of the Disaster Services Program at Mental Health Services here in Roanoke. Our whole program is funded by the Federal Emergency Management Agency.

First of all, I would like to thank you for inviting me here and for your interest in listening to the kinds of emotional and psychological problems that people may have been going through since the flood.

I have a written statement, and I also have copies of it here, if anybody wants to take a look at them.

Mr. MAVROULES. Thank you.

Ms. JOHNSON. The Disaster Services Program was created to provide supportive services, emotional support services, and mental health services to people affected by the flood. Our case managers and counselors have been working with the residents. Our catchment area is Botetourt County and the Roanoke Valley. They have been working since December with people affected by the flood. I would like to describe for you some of the emotional and psychological effects of the flood and how we feel the SBA process has been impeding people's recovery to the flood.

As you probably realize, the flood was a devastating experience for people. There was loss of life, of homes, of jobs, of personal possessions. People went through very traumatic and frightening things the day of the flood and the day after. So we are dealing with a whole lot of different experiences.

People spent a lot of time in the first 2 months cleaning up, trying to meet the physical needs—food, clothing, shelter—trying to keep their families together. They really spent a lot of energy trying to do all those things and trying to make a nice holiday. The flood came right before Thanksgiving and Christmas. So there was a lot of pressure in those couple months following the flood.

Applying for assistance, was just one more pressure that they had to deal with.

Normally people have reactions to a disaster such as this. They have stress-related and grief reactions. We have seen a lot of those things in our clients. People are easily distracted, or they are having trouble concentrating. That is all an effect of the stress that they are going through.

Some of our clients have had somatic reactions—headaches, backaches, colds. We have a woman who has had a bleeding ulcer. It is all a result of the stress. People go through anger, irritability, they withdraw, they feel depressed. All those things are normal.

Everybody copes in different ways. When you have to deal with something as devastating as the flood and something as abnormal, people use these coping mechanisms or they have those reactions and stress.

We are seeing in some people more severe reactions. We have had people who have suicidal tendencies brought about by the flood. We have people whom we have had to hospitalize a number of times.

Mr. **Mavroules**. May I interrupt you please, Tammy? Do the reactions, continue to come at this point?

Ms. **Johnson**. Yes, they do. They are mostly delayed stress reactions because people were so——

Mr. **Mavroules**. Do you want to explain that?

Ms. **Johnson**. Yes. People were so busy in those first two months they were working on all those physical needs and not building, not paying attention to what was going on inside of them emotionally. After 2 or 3 months those reactions start to come out in greater forms. We are seeing them more severe now.

We expect, looking at all the disaster literature, that we are going to continue to see the emotional effects for many months to come.

Mr. **Mavroules**. Let me interrupt you one more time. I am trying to make a point here. Would you consider that it continues because of the economic distress related to their problem?

Ms. **Johnson**. That is part of it, and it is a very big part of it. We are seeing a lot of people, especially those who have applied for SBA loans, who have spent all their energy and resources to do the cleaning up and the repairs. And now, they are at a standstill. Where are they going to go? They do not have the money and they are waiting and they are waiting. And that waiting period is just exacerbating the stress. When we deal with a lot of different clients they have come up with four different complaints that we have heard the most. I would like to talk a little bit about those.

The SBA—not just the SBA process, the whole application process for assistance has been termed the second disaster. The SBA process is dragged out longer than the other processes. And people are traumatized a second time.

One of the problems that people have cited is how complicated the forms are. In those 2 months that they were busy trying to clean up and get their families together they had very, very complicated loan forms that they needed to fill out. We have dealt with elderly clients who did not understand the forms, maybe did not have enough education to be able to fill them out. Some of the things required on those forms were washed away in the flood—bank statements, deeds for houses, things were gone. So they did not have the means to put those applications together.

Our case managers have helped people do that. And they have come back and complained to me about what they had to deal with putting those forms together.

Also, people have complained about the long or the involved process, the SBA calling them back and forth, sending them new forms, telling them to add additional information to their application. People talked about sitting by the phone for 3 days straight waiting to hear from the SBA and not being able to leave their house because they need to answer questions.

One man said to us that he became so afraid to answer the phone because he did not know who was going to be calling in next, and he could not remember what he told which Government official, or what he told SBA and what he told FEMA. It was just a very stressful time for people.

I think, as I said, the long waiting period is exacerbating all of that. I did have one man tell me that he could not wait any longer and he went to the bank and got a loan.

The last thing is the terms of the loan, which were touched on earlier. Most of the people whom I have talked to, and that my staff have talked to, did not know what the terms of the loan would be. They did not know that there would be liens put on their houses. They did not know that they could not pay their back bills with the loan money. If you lose your house and your business in the flood or you get a lot of damage and you cannot pay mortgage payments for all these months, what is the point of taking out a loan if you are going to lose your house because you cannot use the loan money to pay back your mortgage payments. It does not make any sense for some people.

The loans, I think, are frightening to others. One of our case managers will testify later about how frightening the loan was to an elderly couple we dealt with.

Mr. MAVROULES. Thank you very much, Ms. Johnson.

[Ms. Johnson's prepared statement follows:]

PREPARED STATEMENT OF TAMBRIA A. JOHNSON, DISASTER SERVICES COORDINATOR, MENTAL HEALTH SERVICES OF THE ROANOKE VALLEY, ROANOKE, VA

The Disaster Services Program of Mental Health Services of the Roanoke Valley was created to provide emotional support and mental health services for people affected by the November 4, 1985 flood. It is funded by the Federal Emergency Management Agency. The Disaster Services Program consists of counselors and case managers who provide counseling, group discussions and case management to residents of the Roanoke Valley and Botetourt County. We are here today to describe the emotional and psychological effects of the flood and explain how the SBA disaster assistance process is impeding healthy recovery of flood victims.

The flood was a devastating experience for many families. Ten people died in the Roanoke area alone. Many people lost their homes and possessions, and some lost their jobs. Many victims lived through traumatic and frightening experiences. A disaster such as the flood creates a variety of emotional and stress-related reactions in those people affected. These reactions are common and understandable.

In the first two months after the flood, people were kept busy trying to meet their basic physical needs: shelter, food and clothing. They spent much time cleaning up their houses and applying for assistance to rebuild their lives. Many struggled to keep their families under the same roof. People worked very hard to have memorable holiday celebrations (the flood occurred just before Thanksgiving and Christmas).

There are certain reactions that are common in people recovering from a disaster. Flood victims have become overwhelmed by the amount of energy needed to clean up their homes, to meet physical needs, and to apply for assistance. Many clients of the Disaster Services Program suffer from a lack of concentration and are easily distracted. These are both symptoms of stress and common in disaster victims. Many flood victims have also experienced somatic reactions to stress, such as headaches, backaches, colds, stomach distress and even bleeding ulcers. Changes in eating and sleeping patterns are also common reactions for both children and adults. For the past five months we have seen all of these reactions in our clients, and we expect that our clients will continue to feel the emotional effect of the flood for months to come.

Depression, irritability, anger and apathy are also common reactions in disaster victims. These reactions are related to both grief and stress. Every person is different, however, and each has his own unique mechanisms for coping with problems. In the Disaster Services Program, we have seen a wide range of flood reactions. On the more severe end of the scale, we have several clients with suicidal tendencies that have been brought on by post-disaster stress or the trauma of the flood itself. Two of these clients have been hospitalized twice each since the flood. In addition, we have a number of clients suffering from Post Traumatic Stress Disorder who have recurring dreams or thoughts of the flood.

Stress or feelings of grief must be dealt with or they lead to more serious problems. The disaster recovery period is such a busy, stressful and emotional period that people tend to ignore their relationships or withdraw from other people. We are now treating clients for substance abuse, marital problems and a variety of emotional problems. Although the flood cannot be pinpointed as the start of all of these problems, it caused a breakdown in victims' coping abilities and intensified previously existing problems.

The "red tape" involved in obtaining disaster assistance has been called "the second disaster," and has served to exacerbate the stress reactions discussed above. It does not seem fair to traumatize people for a second time in such a short period by barraging them with complicated forms, invoking involved approval processes, requiring patience through extremely lengthy waiting periods, and offering loan terms that seem unreasonable and threatening.

Flood victims have contacted the Disaster Services Program seeking assistance with their emotional recovery from the flood. In addition to trying to help victims get through the red tape of the assistance process, the Program's staff listens daily to victims' problems and complaints. The following are the complaints that we have heard most from victims regarding the SBA assistance process.

PROBLEM SUMMARY

(1) In the first two months after the flood, flood victims complained about the complexity of the SBA application forms, and asked case managers for assistance completing the forms. Some people simply did not understand the forms. Others had little education and were unable to complete them. Many people were under tremendous stress and lacked the time and energy to get all the needed information. Another major complaint was that most of the requested information (e.g., bank statements, deeds, etc.) had been washed away or destroyed in the flood.

(2) The Program's clients have complained about the involved approval process. One man stated that he had become afraid to answer the telephone because he was convinced that each call would be from another disaster assistance agency and he did not know what questions they would ask him next. He also

stated that he had spoken with so many people at the SBA that he did not know to whom he had told what! One woman told us that she sat aside her phone for three straight days so that she would be available to answer any SBA questions. Many clients spent a good bit of their sorely-needed money on long distance phone calls to Atlanta before they were informed of the toll-free lines available for their use.

(3) The Program has clients who are still waiting for a decision from the SBA on their requests for assistance. It is now more than five months since the flood occurred. Victims have completed all the cleaning and reconstruction possible without SBA assistance. They have waited patiently and are now at a standstill in their recovery efforts. Many clients have expressed their anger and frustration with the long waiting period. One man asked a counselor why the SBA's assistance was called "disaster assistance" when it is not rendered immediately. Another client waited for an SBA decision for three months and then decided he could wait no longer. He took a loan from a local bank at an interest rate higher than the rates on SBA loans. Another client who is waiting for a loan to rebuild his home and his business lacks the income needed to pay his monthly bills.

(4) Some of the Program's clients, after waiting four months or more for SBA decisions, have been forced to turn down SBA's assistance because of the terms on which it is offered. Middle-aged and elderly couples are sometimes not willing to enter a twenty or thirty year loan agreement that puts a lien on their home. They are frightened by these terms. Other clients have complained about the restrictions SBA places on the assistance. For example, if a person is unable to use the loan for mortgage deficiencies that have built up because of the flood, there seems to be little point in accepting a loan to repair a home that the bank will soon take.

CONCLUSION

The effects of a disaster such as the flood of November 4, 1985 are long-term, and victims will continue to experience problems over a long period of time. The aggravation involved in completing complicated forms and having to wait many months for means to meet immediate needs is an obstacle to effective and healthy recovery. The objective of disaster assistance is to speed and ease recovery. This objective is hindered by present SBA procedures and policies.

S.B.A. LOAN APPLICATION CASE EXAMPLE

As a former federal government employee, I am familiar with and have often filled out many government forms. In assisting flood victims with completion of S.B.A. forms, I found myself confused by the forms. I personally became very distressed by the process. My impression is that they are far too complicated for the average person. Their complexity is even greater for those who have experienced the emotional stresses of the flood.

The problems encountered are exemplified in one of my cases. This elderly couple lost everything in their home during the flood. The husband was hospitalized as a result of the stress from the flood. They first attempted to fill out the S.B.A. loan application in November. The application was returned because the information was not complete. It was requested that they include the deed to their house, bank statements, and an employment history.

The wife was overwhelmed at the thought of trying to secure the appropriate information. She has very little education and has always depended on her husband when it came to household recordkeeping matters. After a good deal of effort, we were able to secure the needed materials. It was necessary to go to the S.B.A. office for assistance in filing.

Approximately six weeks later, my clients were informed that their loan application had been approved. The couple decided not to take the loan because of the terms. The loan is contingent, among other things, upon a 20 year lien being placed on their house. This lien was very frightening to them. As an elderly couple with a fixed income, they were afraid that they would lose their home. For example, if one of them was to die or be placed in a nursing home, their income would decrease or be quickly depleted. They then would not be able to make payments. Currently, the husband has been rehospitalized and the wife is obtaining counseling.

Problem Summary:

1. The wording on the application was very confusing.
2. I was not able to complete the S.B.A. loan application form without the help of an officer at the S.B.A. office.
3. It is exceedingly difficult to acquire the needed information. This is because disaster victims have often lost all of their records. My clients became depressed over the loan process.
4. My clients felt that the indepth proof required by the S.B.A. was an indication of mistrust.
5. After the application is completed, it seems to take an inordinately long time for the applicant to receive funds.

S.B.A. LOAN APPLICATION CASE EXAMPLE

The client called Mental Health Services - Disaster Services Program requesting help with the S.B.A. application. Recently discharged from the hospital after having bleeding ulcers, the client said she could not cope with completing the application. A friend had completed part of the application for her, but she was not sure if it was correct.

I visited the client's home which had been flooded. Eighteen inches of water in the house had damaged the floors, doors and foundation. The house had been cleaned and floors replaced so that it was livable. The warped front door was held shut by a couch pushed against it. One room was still unused due to faulty support from foundation damage.

The client emptied, onto the table, a manila envelope of S.B.A. loan application papers. Five or six pages filled the table. The client, who has less than a high school education, did not know where to start. A friend completed part of the application, but the client felt it did not look right. We used about three of the pages. Referring back and forth among different pages was confusing and frustrating. We completed the form in 1 1/2 hours.

My client, already physically and emotionally drained, found the S.B.A. application overwhelming, confusing, and frustrating because it was too complicated, too long and required outside trips to secure information and copies of documents.

Problem Summary:

1. The application is too long.
2. The language is not plain and direct.
3. Collecting the required information is difficult.
4. Terms of the loan are too stringent.
5. S.B.A. should do more outreach to explain application procedures.

Mr. **Mavroules**. And, Katherine, you had better do well in front of your boss here, Mr. Olin.

Mr. **Olin**. She does very well day by day. That is good enough for me.

Mr. **Mavroules**. I am sure she does, Jim.

TESTIMONY OF KATHERINE ELLIOTT, CASEWORKER, OFFICE OF CONGRESSMAN JIM OLIN, ROANOKE, VA

Ms. **Elliott**. Thank you, Mr. Chairman.

I would like to give a brief synopsis on one particular flood case that we dealt with in our office. We have dealt with hundreds of SBA cases in addition to the many other flood-related cases we have had.

Briefly, let me read this statement.

The home of one of Congressman Olin's constituents was completely destroyed in the flood. The local disaster application center was opened in Roanoke on Wednesday, November 13. This constituent was one of the first ones in line that day. And she has told me that she was the first to complete her paperwork before leaving the center that same day.

Because of the extent of damage to their home, arrangements had to be made to live elsewhere. Since the flood, this family of four has moved three times. They did find another home to purchase and have made arrangements to move as soon as their loan money is received.

To understand what has taken place since November 13, I will try to repeat what was told me by this constituent.

A loss verifier did not come out to the property until sometime in December. I do not have an exact date. The requested paperwork was completed that evening and was given back to the verifier.

In early January, a call came in to the constituent from one of SBA's loan officers explaining the terms of their home loan. The constituents received a letter of loan approval on January 30, 1986, in the amount of $105,000. The followup paperwork from Atlanta listing requirements needed such as title, deeds, et cetera, was not received until the end of February.

On March 1, the requested paperwork was mailed back to Atlanta. One week later, anxious to get a status report, a call was placed to Atlanta. One of SBA's representatives assured our constituent that they should go ahead and schedule closing on this new house that they had found because their check would be received within 30 days. Closing on the house was scheduled for Wednesday, April 9.

Congressman Olin's office was contacted on April 4 after nonreceipt of the money. I was told by SBA that once the attorney's name, address, and phone number were provided, SBA would arrange for the money to be released.

I gave this information to SBA on Monday, April 7, only to be told that three more requirements had to be met:

One, they wanted the address, phone number, of the attorney;

Two, they wanted proof of increase in flood insurance; and

Three, they needed a legal description for the new property.

After a call to the constituent I learned that each of these items had been sent to Atlanta 5 weeks earlier with a letter explaining that their new home was not in a flood zone, therefore, flood insurance was not needed. I was told by SBA they would try to find those documents that had already been sent and would get back in touch with me.

On Tuesday, April 8, I was told SBA was still trying to find those documents and that I would get a call back.

On Wednesday, April 9, I had to call Atlanta again after not getting the call back. This time I was assured that the check would be sent to the constituent's attorney with the following request: A deed of trust for the attorney to complete, need for the legal description on the property, and proof of increase in the hazard insurance and title insurance.

I was promised by SBA this would be forwarded to the attorney on Thursday, yesterday, sent overnight mail. Plans have been made to close on the new home today—that is almost 10 weeks after their letter of approval from Atlanta was received.

Mr. Chairman, this is just one example of many such delays that we are hearing about. It is not unusual. It is not that different. And we feel we are in a position where our hands are tied. We are just trying to help these constituents out.

Mr. MAVROULES. I know you are and I commend you for that, Katherine.

Let me ask you a question. Do you feel, perhaps, the entire process was somewhat inept in handling this very serious crisis that you had here in this part of the country?

Ms. ELLIOTT. I think the whole thing, Mr. Chairman, was just misleading.

Mr. MAVROULES. Was the misleading on the part of SBA officials, Federal officials, or whom?

Ms. ELLIOTT. I would say just everyone in general. I know our office felt that once the disaster application centers opened and once people were able to come in and sit down face to face with some of the officials who had come to the center that they would get some sort of relief.

And what we learned was that that was just the beginning of their headaches and problems. And it has continued for 5 months now.

Mr. OLIN. Mr. Chairman, could I?

Mr. MAVROULES. Please, Jim.

Mr. OLIN. Kandy, could you describe a little bit more. You have been very close to the SBA loans in the last several months in helping out, and we thank you for that, could you give your idea of what you think the basic difficulty is and what needs to be fixed with regard to the SBA handling of these loans, as you see it?

Ms. ELLIOTT. There are just any number of problems, Mr. Olin. I know you are quite aware of a lot of them, too. I think it is just the overwhelming paperwork. I see the need for it, obviously, on SBA's part; they do not want to get burned, as they probably have in the past.

Mr. OLIN. Did you say that they were misleading people? Could you explain that?

Ms. Elliott. I think that they just were under the impression that once they initially got their paperwork taken care of and sent back, it is after the fact that they are repeatedly asked for more information. And all this has taken their time—sending paperwork back to Atlanta, they will look at it, send it back with more requests, they send that back to Atlanta, you know, and this is back and forth.

Mr. Olin. So part of it is just the——

Ms. Elliott. This example——

Mr. Olin. If I could interrupt, part of it is just the clerical question of answering phones and keeping track of papers and get the papers in the right folder?

Ms. Elliott. Trying to get an answer. You know, calling, like Ms. Johnson said, and waiting for a phone call to explain it.

Mr. Olin. But then there are, after commitments are made to send a check, there are more requirements for information and commitments——

Ms. Elliott. Correct.

Mr. Olin [continuing]. That were not in the deal.

Ms. Elliott. Correct.

Mr. Olin. So, they make a deal and then they change the deal.

Ms. Elliott. Right.

Mr. Olin. Has this woman lost her house, do you think? She has not lost the house yet?

Ms. Elliott. She missed the closing day. She had been assured by SBA to close in 30 days. And that is why it was set up for this past Wednesday. She missed the day.

Mr. Olin. Is she expecting a check today?

Ms. Elliott. She is expecting a check at the attorney's office today. Now, whether it has been received, I do not know.

Mr. Olin. I might ask Mr. Nash if he wants to step outside and be sure that check is coming, I really would appreciate it.

Ms. Elliott. Excuse me just a minute, Mr. Olin. I had been told yesterday afternoon that the check as well as the paperwork that was to be sent to the attorney had been sent out overnight mail to guarantee it.

Mr. Olin. It had been mailed?

Ms. Elliott. At 3:30 yesterday afternoon from Atlanta.

Mr. Olin. It had been mailed from Atlanta.

Ms. Elliott. So, we assume that it is, here.

Mr. Olin. I hope that is right, Mr. Nash.

Ms. Elliott. I hope it is, too.

Mr. Mavroules. OK, Jim.

Harley, would you care to comment? You are going to hear the same story as we go over——

Mr. Staggers. That is right.

Mr. Mavroules [continuing]. Over the hills very shortly.

Mr. Staggers. Ms. Elliott, when you mentioned about the misunderstandings, this was not just one case, it was pretty much across the board?

Ms. Elliott. Well, obviously, we are not going to get the calls from people who are not having trouble. I mean, that is what we are there to do. The calls that we received were very similar to this.

Mr. STAGGERS. Have you ever received, in any other area of your casework, this type of outflow of complaints?

Ms. ELLIOTT. I do not handle a great deal of Mr. Olin's casework, generally. As Mr. Olin said, we are working on it every day, and we have been working on it every day since November 5. And we do not see it easing up any. In fact, we are getting more.

Mr. STAGGERS. What about the emergency assistance, the FEMA, that type of thing? Were there problems?

Ms. ELLIOTT. We had some problems with National Flood Insurance getting checks out. But in comparison that basically worked out pretty well.

Temporary housing and those services we felt were quite satisfactory.

Mr. OLIN. Yes; if the gentleman will yield. I wanted to ask Mr. Cole, on the issue that Mr. Mullins brought up of not allowing expenses incurred in fixing things up rather than buying new equipment, did you have that same experience, Mr. Cole?

Mr. COLE. Yes, sir.

Mr. OLIN. Could you tell me a little bit more about it and what you were told by the SBA with regard to being able to recover the costs, being able to finance the cost of repairs you did yourself?

Mr. COLE. Well, as I said, within days after we applied an initial amount was disapproved. And that was an amount that we had applied for that was labor involved, in other words, labor that normally would have been installing doors, bringing in income, this labor was used to clean up. And you cannot take a person to clean up an electric operator who does not know the operator. And so they, yes, they disapproved all of our labor and all the income that we had applied for that the labor would have been bringing in—something that would have subsidized $100,000 to $130,000.

Mr. OLIN. So to stay in business you basically used working capital or whatever funds you had.

Mr. COLE. Right. Right.

Mr. OLIN. You used the funds to get yourself back in business.

Mr. COLE. Right.

Mr. OLIN. And you did not have those funds anymore.

Mr. COLE. Right.

Mr. OLIN. And SBA said we cannot possibly loan you money for that purpose.

Mr. COLE. Right.

Mr. OLIN. That is basically what they said?

Mr. COLE. Basically disapproved all time involved in labor and principals and inside, outside, anybody involved in the company, all the time was disapproved, yes, sir.

Mr. OLIN. As a businessman the thing that enables you to stay in business, one of the things, is to be able to have some working capital so you can function.

Mr. COLE. Right.

Mr. OLIN. And you went to the bank and were able to get that money from a commercial bank, I take it?

Mr. COLE. Right. Well, we did not bill in November, as he said. There is a lag in the construction business. We felt it in January or early February. So that is when we went to the bank.

Mr. OLIN. Well, if the SBA is supposed to be giving loans to help businessmen and women recover from the flood they have to recognize the different kinds of things that business uses money for.

Mr. COLE. Right, sir.

Mr. OLIN. And if you have the ability to pay the money back they ought to be pretty, pretty flexible as to what they allow you to spend the money for, as long as it is your business, to enable you to get back on your feet and function. Is that about right?

Mr. COLE. Yes, sir.

Mr. OLIN. And what is your view as to whether they seemed to be understanding that or not?

Mr. COLE. Well, I think they, the people at the Poff Building that I met with the other day I think understand that, at least they said they did. They said there were certain rules of the game that they were bound by, and so they could not commit to anything. But they did say they would take a go at it.

Mr. OLIN. Not too much, the interest rates, they have got to have some flood insurance if that applies, and maybe the length of the loan. Beyond that there is not too much that they are bound by.

Mr. COLE. OK.

Mr. OLIN. They have to use their judgment about getting the money back.

Mr. COLE. Well, this is hard to debate because I do not know the rules of the game.

I think you related it to a bank. One difference is, when you are dealing with a bank you are dealing with a loan officer who is explaining it to you step by step. And if you are average intelligence or less—and some of us are in this category—when you are dealing with one man in Atlanta and then a month later you get a letter and then another man in the Sear's Building and another man downtown, none of them are bound to explain to you. And I heard him make that comment, "We cannot explain the loan documents."

That is what a bank does. They explain loan documents. If you have ever bought a home, all you have got to do is sign your name and have an honest banker and an honest lawyer and you do not have to understand it.

In this case you do have to understand it, so someone does have to explain what you are doing.

Mr. OLIN. I am going to be asking Mr. Kulik at the end of the meeting why the SBA cannot treat this process like a bank treats the process, because their intention is to try to help people get a loan. That is just like the bank.

Mr. COLE. Right.

Mr. OLIN. The bank wants to help people get a loan. And they want to have the security and different things. It is about the same. The big difference is that SBA will take a little more risk. That is the whole idea of it. They will take a little more risk with the individual than a bank might take. The Government shares that risk in order to help the citizens of this country. That is the whole point of it.

But it does not say to the SBA that they are not supposed to get loans out to people. They should be using the techniques and the methods that banks have found work. There is not the slightest reason in the world, that I know of, that keeps the SBA from doing that. And I am going to ask Mr. Kulik why in the world he does not do it.

Mr. **Mavroules**. Thank you very much for your testimony and appearance. You have been very helpful here this morning.

Our next panel: Mr. Joseph LaRocco from Salem; Mrs. Lucia Craighead from Salem; Mr. Harry Craig from Staunton; and Mr. Steve Seymour, Roanoke Valley Mental Health Services, Roanoke, VA.

Thank you all for appearing here this morning. Mr. LaRocco, if you would begin the testimony.

TESTIMONY OF JOSEPH LaROCCO, SCHOOLTEACHER, SALEM, VA

Mr. **LaRocco**. Thank you. And I want to thank the subcommittee for this opportunity to give me my chance to speak.

Mr. **Olin**. Excuse me. We would like to move the mikes if we could.

OK, Joe. Go ahead.

Mr. **LaRocco**. Again, I would just like to thank this subcommittee for the chance to speak on my incidents with this flood and disaster. And I hope by the suggestions I might be allowed to make or by what experience I have, maybe some other people will not have to go through what I had to go through.

But I want to simply say I do not have any ax to grind with any individuals. I think being a high school government teacher I teach my students about bureaucracy and government, and I must say, I have got a firsthand lesson in it, royally.

But quite frankly, I am somewhat upset with the complexity, as I have heard before, as to requirements to getting an SBA loan. To simplify my story, after we were hit with the flood and I got my family back together, we went to the center up here. I was fairly impressed with the warmth and the comfort that the people offered us at this time to make sure that we were housed, had food, clothing, whatever. And I want to compliment those immediate workers that were here with us, because on the day we came up, there were a lot of scared people.

It is a real shock to come home, when you have only been living in a house for a year, and you see most of it under water. It scares you to death.

We got the complex forms. I used to work for CETA on some programs, so I am somewhat familiar with the complexity of Government duplication and bureaucracy. And we went through it. My wife and I are both college graduates. We both teach social studies and have degrees in social studies.

As we filled out the form, they asked for a great deal of information which I just could not honestly place on a verifiable status. We had to guess at a lot of that to the best of our knowledge. Most of our forms were destroyed in the flood. There seemed to be some confusion, especially where you have to fill out an SBA application. And to me it seemed justifiable to ask for information such as if you list something that you lost and need to get it replaced, give a fair market value and list the source. That seemed fair to me. But the IRS figures for flood loss or any other disaster loss seemed different. And that is not what is being discussed here, the IRS, but we had to fill out dual sets of forms.

One thing that got me, we pointed out that our tax returns had been destroyed. And yet, we had to produce evidence of our past tax returns. That took time to get them from Memphis. We even went to the point where our school divisions supplied us with past W-2's, but we still had to come back with those forms, which we complied with.

If I had realized from the beginning of the whole loan process that a lien on my property would have been required for any amount over $5,000, I would not have fooled with it. It is not the Government's fault about my own personal financial status, but quite frankly, we just bought the house, and the amount outstanding on the mortgage, and you add to that a lien on your property, exceeds the value of your property, that is not good financial sense.

But, I had faith in the Government and I had faith in the process, and I thought for sure our hopes would be rewarded with a little bit of patience.

After weeks of waiting and filling out the forms, we sent them in early December, we finally got a phone call with the closing documents that we had received the qualifications for a good amount of money at 4 percent over 15 years. So, I could not complain about the interest rate, to be sure, but there was some confusion about flood insurance at this time.

I live on top of a hill and yet I was listed in a hazardous area. Quite frankly, the SBA did not give me a straight answer as to why flood insurance was needed. Mr. Olin's assistant did. Now, once she explained it to me I did not have any concern about it. And I will say, flood insurance is very expensive.

One of the SBA people, I am sure meaning very well, told me to get my insurance agent to write a letter saying I am not in a flood zone. My insurance agent simply laughed and said, "You are asking me to overrun the Government?"

So, in this case I could see where he did not want to have this buck passed to him. But once it was explained to me why flood insurance was necessary, OK, I went about that.

But then we started getting our closing documents. As I read the terms and went through that long complicated process there, I was not about to disenfranchise my family, asking my mortgaging company to sign a waiver or anything else like that or any sort of prior lien agreement.

Again, if I had just know about this in the future I could have saved the Government and myself a lot of time. I believe everything on those forms is perfectly legal, but I also believe they are perfectly complex.

I went to a local bank after my wife and I decided that we just could not agree with these terms, we went to a local bank. Called them over the phone. They said, "Come on in." They told us up front exactly what they could lend us, for how much, for how long, what kind of collateral was needed. And that was a real relief. That afternoon we had our money. Granted, it was not the amount that the SBA offered. Granted, it was not for the interest rate. But they were terms that I could live with. And I think, quite frankly, it is nice just to deal with somebody face to face instead of with somebody over the phone.

The responsibility of taking care of victims in a flood is an awesome one. And I do not think for a minute that the SBA is something that this country can do without. But I do believe that some things need to be clarified. When the loan application is processed there is a statement on the form that says you may be required to have flood insurance. But tell the victim why and in what instances. And also, up front——

Mr. OLIN. May I interrupt you there one moment, Joe?

Mr. LAROCCO. Sure. Sure.

Mr. OLIN. Could you run through the sequence of when you got this different information? You are saying that the terms were not known to you until somewhere down the line.

Mr. LAROCCO. OK. We applied——

Mr. OLIN. Run through this sequence of information.

Mr. LAROCCO. All right. We applied and got our paperwork and sent it in the first of December, about 3 weeks after the flood. We got a phone call of initial approval around the last part of December, first part of January. We were home on break. About 3, 4 weeks.

Mr. OLIN. At the approval point what did you know about the terms?

Mr. LAROCCO. He just gave us the amount. He told us the interest rate. And we agreed on a term, a time. He also said, "You will also need flood insurance." And I said, "Wait a minute. I am on top of a mountain here." And he said, "Well, that is not my decision. You will have to call somebody in the local office. You have to call one of the verifiers."

So I called the local office. It took about 1½ weeks to get any sort of an answer there. And then that is when I called your assistant.

Mr. OLIN. Nothing on the lien at that point?

Mr. LAROCCO. Nothing on the lien. We got this initial set of closing documents, sort of like the little handbook, what you can and cannot spend the money on, which to me was a real shocker. One person told us here that we could go ahead and start cleaning up and keep bills. But then as I read these documents, if I read them correctly, I cannot use that to pay any back bills at that time.

I was fortunate, I had a job to go back to. I really feel sorry for those people who do not, or did not at that time. So what else could you do with that money?

They also wanted building permits. Well, very few contractors are going to come up and get a building permit and then come back 6 months later and start working on your house. It is just a complicated mess there. They wanted copies of that.

We had to give two, at least two copies of my house title. I cannot see why they needed two copies. One is sufficient. They needed extra copies of my insurance, hazard insurance. This, to me, is just duplication over and over again. I did not understand that.

There was nothing mentioned about the lien until we got the following set of closing documents about 3 weeks later, around February 1. And then this was where it says have a lawyer and you go over this and have the notary sign this and all that. We started reading through the terms and I said, man, this is a lien.

There was a warning in the earlier set that we had received, a little booklet, not to have contractors put liens on your property in lieu of services performed. But it did not say anything in there about a lien on your property as a condition of the loan.

Mr. OLIN. Do you think that most of these things could have been talked about earlier?

Mr. LAROCCO. At the time?

Mr. OLIN. Yes; let us say about the time they were saying the loan was approved and you say to them: "Is there anything else I should know about?"

Mr. LAROCCO. Well, we did ask that and he said: "This is all I am authorized to tell you at this time."

Mr. OLIN. That is all he was authorized to tell you?

Mr. LAROCCO. Yes.

Mr. OLIN. Looks like they are purposely not telling you the rest of the story. Is that what it seemed like to you?

Mr. LAROCCO. I would not make that conclusion. I would not make that conclusion.

Mr. OLIN. You would not.

Mr. LAROCCO. I would just say that this is what he was authorized to tell us, and they were very careful not to overstep their bounds at this point.

Mr. OLIN. Well, for whatever reason then, they did not tell you. You asked, and they said they could not tell you.

Mr. LAROCCO. Correct, sir.

Then we finally got those statements and I said, this is a lien on our property. And for the personal reasons I mentioned, plus, I just cannot do that to my family. I suffered enough in a flood, I do not need to disenfranchise my family. I am just not going to do it at this point for something that was beyond my control, a natural disaster.

So, in summary, I do not disagree with the reasons for the flood insurance, I just think they should be made clear. And I, in my testimony to you, Mr. Olin, and to the committee, made a few suggestions just as a common citizen, maybe with a shred of hope that we could save other people from it.

But we have gone the commercial route. And it is interesting to note, you have to remember that banks do not service the number of people that the SBA would have to, but I think certainly both sides can learn from each other.

And as I say, it is an awesome path they have to go, but quite frankly, at this point it is kind of upsetting when it hits you personally to deal with this.

Mr. OLIN. Thank you.

Mr. MAVROULES. Thank you very much.

[Mr. LaRocco's prepared statement follows:]

PREPARED STATEMENT OF JOSEPH LAROCCO, SCHOOLTEACHER, SALEM, VA

I hope this brief testimony will help both the subcommittee and the SBA in providing quicker and more effective relief for victims of disasters. I hope to give the impression that I do not want to discredit or harm anyone, but I do feel very disappointed that my family did not or could not comply with what we felt was a very complicated procedure to secure a loan from the SBA.

In November of 1985, our home was flooded with about four feet of water. A great number of personal belongings and some downstairs walls, carpets, and fixtures were totally ruined. We estimated our damage somewhere between twelve to sixteen thousand dollars, depending upon the value of some of the items such as rare text books and family possessions which were hard to evaluate for replacement cost. Fortunately, the upper level of our house was free from damage.

We went to the Salem Civic Center to apply for help. I must beg the committee to commend these people for offering us a great deal of understanding and comfort in those rough days. They were simply tremendous in helping us and they should be commended.

We were at first confused about the SBA loan procedure. But my wife and I sat and read through all of the applications and began to fill out the forms. Most, (if not all) of our tax records were ruined in the flood. Yet we filed for the necessary forms from the IRS to prove our income. As we filled out the forms, we noticed there was no mention at this time of requiring liens on our homes as a condition to securing the loan.

After making two trips to the Disaster Assistance Center and giving out several copies of our Homeowner's Insurance, IRS returns, and house deeds, we felt that maybe it would all be worth it in the end.

In late December, we received a phone call from Atlanta that we qualified for 11,700 dollars in disaster assistance loans. We thought the percentage rate and term of 15 years were very good terms. We were confused as to why we were required to have flood insurance on our property since we live in a very high elevation. We received no explanation about the flood insurance at this time.

Our first set of papers came a few weeks later. They seemed to be repetitive and similar in the ones we had filled out earlier. This set asked that copies of building permits, plans for construction, proof of flood insurance was being paid, and several more new requirements were listed here.

When we called the local office about flood insurance, we really did not receive a direct answer. We were told earlier that one had to have flood insurance if one was located in a flood plain. We live on top of a hill in Salem, and I thought perhaps the verifier had made a mistake. The local SBA people told me they did not make such a designation, but FEMA did the declaring of affected areas. However, I was told to get my insurance agent who wrote my homeowner's policy to write a letter to the SBA, and tell them we were not in a flood plain, and the flood insurance requirement would be waived. They still did not explain why we had to have the coverage. My insurance agent simply laughed at the SBA's recommendation and explained to me that everyone was in a flood plain, and that we were in zone "C" which had the most remote chance of flooding.

It took one of Congressman Olin's field workers to tell me why the insurance was required. Once she explained it to me, it made sense. There was no such explanation on the form or from the SBA. (I must tell you, it is very expensive insurance).

A few weeks later, additional closing documents came with simple little instructions attached to each briefly stating what each set of documents were and telling us to have these signed and finished. A number of these forms were repeating similar requirements from earlier forms (they asked for new copies of hazard insurance, proof of flood insurance being paid, and so on). As we read through the fine print, we came upon the documents which required that a lien was bring placed upon our property if we wanted the loan. This was a surprise to us and we were not originally informed about this new requirement to get some help from the SBA. We also got the impression that it would take a great deal of additional time to get any money from the SBA once the papers were in good order.

My wife and I fully expected some form of collateral requirement, but the lien requirement simply did us in. We then decided that we would go to a commercial bank and begin this process all over again. To our surprise, the banks were very accomodating. They told us up front and in a very business-like way what we could borrow and with what type of collateral. When we considered all of our bank's offers, we chose one that seemed the best for us. The bank worked out a simple home improvement loan which would take us only three years to pay off the loan with a higher interest rate than offered by the SBA. The entire process took only about an hour and we had our money that afternoon.

Going through this experience had to be an eye-opener for my wife and I. It simply amazed me as to the difference as to the amount of paperwork and time it took to get a loan from the SBA as compared to a bank. To be sure, the SBA must cover its bases and has a much larger and broader responsibility than does our bank. There must be guarantees that the loans will be properly used and paid back on time. But there must be recognized that there is a limit to human patience and endurance when one has to wait for all of these forms to be filled out and verified. People in a disaster need help, and from our experience, the common person cannot have the expertise to do a great deal of the necessary paperwork themselves to complete the SBA requirements for a loan. My wife and I are college educated people, and we had trouble with the fine print on the closing documents. The instructions were simple enough, "sign this and send it in." But when the print was read by my wife and I, well we couldn't accept it.

The amount of the SBA loan and the outstanding mortgage balance would in all probability exceed the value of our home. It was also going to take time to get all the necessary details completed to get any money for the loan. We lost some real valuable time in December, January, and February in which a contracter could have come in and begun work on our home. In many ways, the SBA forms proved to be too much hassle and too great a risk. The bank loans were very business-like and very immediate. They will not offer the amount offered by the SBA nor does the bank interest rates even compete with the SBA, but in the long run, we will have it paid off sooner. We cannot fix up everything as we would have liked it, and we have simply written off some of the personal losses.

In summary, we are indeed fortunate to live in a land which has a sympathetic government which offers help to victims of disasters. We were indeed fortunate that there was not more extensive damage to our home. But there was enough suffering from the flood, and the hopes we received from the SBA to help us get our lives back in order were becoming fainter and fainter with each passing day.

There are a few recommendations I would like to offer to help expedite the process:

(1) Be upfront and tell people that some of the SBA loans in excess of $5,000 require liens. This was not on the original applications or on the first set of closing documents.

(2) In lieu of a lien, couldn't some form of a term life insurance policy be required? The SBA could be named the beneficiary. The SBA has every right to expect payments, but it seems to defeat its own purpose with the lien requirements.

(3) There doesn't seem to be a need for repetitive forms that were asked for. This should be reduced.

(4) If flood insurance will be required, explain why.

In conclusion, I do not envy the SBA's job, but I must admit that a better way to get aid to disaster victims be found.

TESTIMONY OF LUCIA CRAIGHEAD, SCHOOLTEACHER, SALEM, VA

Ms. CRAIGHEAD. Thank you for having me here today. If I sound a little nervous, I am a first grade teacher and I am not used to dealing with a distinguished group.

Mr. MAVROULES. Well, just relax. We get nervous, too.

Ms. CRAIGHEAD. Oh, I will pretend you are a student.

Mr. OLIN. We have all been there. We have all been there.

Ms. CRAIGHEAD. On November 13, my husband was 17th in line at the Civic Center and he got all the information necessary to obtain the loan. He spent the better part of the day at the Civic Center filling out papers and going from booth to booth to find out what our needs were.

On December 31, we finally heard from the SBA and they sent a field officer to our home. It was over 1½ months since we applied and the field officer came to assess our damages. Well, he came and he stayed maybe 20 minutes, did not give us any indication of whether he felt we would get the money, which I am sure he did not know, but he said things looked favorable.

Finally, on January 8, we received a card stating that the information had been sent to Atlanta for processing. He was at our house on January 31, and on January 8 he sent the information in to Atlanta.

Between January 8 and January 29 we received a few calls from Atlanta about our loan. At this time we discovered that the man who had been through our house estimated that we had $28,500 damages. According to our estimates and calculations, to get work repaired and items replaced we had about $41,000 damages.

On January 29, we received information saying that our loan had been approved. We received some rules and regulations governing the loan 10 days later. About 10 days after that we received our final packet, which included legal papers stating that we needed more flood insurance; we called our insurance agent and we increased our flood insurance by $191 a year, which took our insurance to about $500 per year. Our rec room, basement, and yard were the worst part of our damages. But by increasing the insurance, we still, if we had another disaster tomorrow, and the flood came to the very same level, we would not get one penny more because of the clause in the flood insurance which states that steps going to your rec room that they cover just bare basement.

So we increased our flood insurance.

Within 2 weeks we got all the information back to Atlanta. On March 3 everything was completed and sent in to the legal department.

On March 18 we got a letter stating that we did not have enough flood insurance. They approved that we had enough hazard insurance, which was the identical amount of flood insurance. But it was not enough. So after many calls to Atlanta and many times being put on hold, and huge phone bills, we got through to someone. They checked it out, and 1 week later we found out that we did indeed have enough flood insurance. So to me, this was just a needless delay. I mean, needless.

On April 3, which was lacking 1 day of being 5 months, we received our first check. We are fortunate, we have our check. However, the day after that we received some information stating that within 3 weeks we would receive our first check. So we got the check before we got the information saying that we would receive our first check.

Mr. **Mavroules**. I hope you are listening, Mr. Kulik. All right.

Ms. **Craighead**. I have to admit that the reason I feel we got our money, our first check so quickly, is because of a man, Mr. Ford, that worked with the SBA. He has been more than helpful. I feel like he should really be commended. He has been just outstanding.

Mr. **Olin**. I think he may be here today.

Ms. **Craighead**. I do not know.

Mr. **Olin**. I believe he is here today.

Ms. **Craighead**. Another thing that we really question is the expenditures. They list how you have to spend certain amounts of money when you apply for this loan. They have allotted us $11,600 for personal property. We called the local office and asked if we could apply this personal property money to our real estate? We do not want to go out and replace things such as baby toys. We would rather take that money and put it on our real estate.

The local man says: "I have no authority. Call the loan office in Atlanta." We called the loan office, they said call the legal department. We called the legal department, they said they had no authority.

So at this point I am saying give me Mr. Reagan's phone number, maybe he has authority. You know, it is really at the point where we do not know who to call. So we wrote a letter, and at the same time they are telling us go ahead and spend your money, go ahead and contract it. Well, they allotted us $4,000 for our retaining wall, which I have pictures of there. It shows that it is all washed out. The lowest estimate we got in Roanoke to replace our retaining wall was $5,200.

But when you contract someone you are scared to death to go ahead and let them start the work and then not have the money coming because someone may not approve it later.

They also approved $100 to repair our landscaping. You see the picture. I mean, we will be lucky to buy two bushes for $100.

[The photos are in subcommittee files.]

Ms. **Craighead**. And they put that we could replace our patio and our damaged walks, and driveway——

Mr. **Olin**. Excuse me, Ms. Craighead, could I ask you?

Ms. **Craighead**. Sure.

Mr. **Olin**. When the investigator came out to check the damage did he discuss with you how he had evaluated the different things you had to spend money for?

Ms. **Craighead**. Nothing; he just sat at our kitchen table and said things looked favorable, wrote some things down, took a few of our pictures and left.

Mr. **Olin**. And you are being bound by whatever number he put on the sheet? That is the way they say, you are not allowed to spend the money any other way?

Ms. **Craighead**. Well, they say that you may make minor deviations between categories. We called Atlanta to see what they meant by minor, because what I may consider minor they may not. But no one knew what minor was in Atlanta. We have not been able to get a straight answer on what is minor anywhere. No one seems to know.

Mr. **Olin**. This business about putting you in a straightjacket, your idea about what is going to improve the value of your property or your usefulness of it——

Ms. **Craighead**. Right.

Mr. **Olin** [continuing]. That could be far different from some adjusters.

Ms. **Craighead**. It seems to me that the SBA would want us to improve our property so that if we ever did have to sell the house that they would get their money. With the first mortgage and then the second mortgage making the loan balance so high, it seems the SBA would want your property repaired. My question is how do we know where to spend this money?

Now, I would much rather put it on my patio and get the house presentable.

Mr. **Olin**. Did you ask, did you ask approval to do that, to change the allocation of money?

Ms. **Craighead**. We asked approval if we could do this and we were told they thought it would be all right, but to put it in writing. We have been told this several times.

I asked one lady on the phone—I do not know her name. I was put on hold and when she came back I said, "I am calling from

Salem, VA, could you please get someone to the phone." And I said, "I have a question about the landscaping." We have already done $1,000 worth of landscaping ourselves. I said, "Could I use personal property money?" And her answer to me was, "Well, why don't you just tell them it was for house plants that you are replacing."

Mr. **Olin**. Have you made a formal written request to change the allocation of money?

Ms. **Craighead**. It is in the mail now.

Mr. **Olin**. It is in the mail?

Ms. **Craighead**. It is in the mail. We sent a formal written request to use personal property money on real estate repairs.

Mr. **Olin**. This does not change the total amount of the loan?

Ms. **Craighead**. No.

Mr. **Olin**. But it changes the way the money is allocated?

Ms. **Craighead**. Right. We do not want to increase our loan, but we do not want to go on an $11,600 shopping spree to replace personal things that we could do later in life.

Mr. **Olin**. If I could break in once more, I am going to ask Mr. Kulik at the end to talk about this subject of allocation of the money where somebody comes up, spends 30 minutes and makes a guess as to where the money ought to be spent and the individual then comes back and says this is the way it should be spent in my opinion, will he or will he not accede to those requests by the applicants to get the money allocated in a way that makes sense to all concerned?

Ms. **Craighead**. You know, we feel like that certainly they would have reason to say, no, you cannot go buy a new car; no, you cannot go on a vacation. We do not want that. We just want to get our home back in the condition that it was in. And $900 to repair or replace your driveway, your patio, and your sidewalk, there is no one in Roanoke that will do it for $900. No one.

Mr. **Olin**. You are making a good point.

Ms. **Craighead**. Right. And so, we would have stopped this loan, but it has become a challenge. You know, it really has become a challenge.

[Laughter.]

Mr. **Olin**. Hang in there.

Ms. **Craighead**. So we feel like, you know——

Mr. **Mavroules**. Nothing nervous about you.

[Laughter.]

Ms. **Craighead**. I get involved.

So, you know, we have had so many extra expenses, with attorney fees to get the title search done. They tell you you do not need an attorney. But in the Commonwealth of Virginia you have to have a certified titling company or an attorney to do a title search.

I mean, it is obvious, even our attorney did not send things in right, because he had everything packed together to send in at one time and they still said we needed more flood insurance. And the attorney is expensive. The phone calls to Atlanta, that is unreal. At first they did have the toll free hotline, but no one knew any answers and you were always put on hold and referred to somewhere else.

And also, the added expense of flood insurance. I would love to increase my flood insurance, had I known that it would help me. But it is not, unless it comes up into my living level and just destroys my house.

Mr. OLIN. They were asking you to pay more for flood insurance but the benefits were the same?

Ms. CRAIGHEAD. Right. The benefits are the same for the lower levels. The upstairs levels would be increased.

Mr. OLIN. That makes a lot of sense.

Ms. CRAIGHEAD. And we would have dropped it, but we just felt like after filling out these papers we should pursue the loan. I am an education major, but you would really have to be a business or law major to get these papers turned in correctly. Thank you.

[Ms. Craighead's prepared statement follows:]

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PREPARED STATEMENT OF LUCIA CRAIGHEAD, SCHOOL TEACHER, SALEM, VA

On November 4, 1985, the day of the flood, we first began to hear of the Disaster Assistance that might become available to victims of this flood. Had we known on that day what the next four months were going to bring, we certainly would have done things differently.

The first mistake we made was going to the Small Business Administration (SBA) for a loan. Why? Had we opted to go with a local bank, we would have already had our house and lives back in order.

My husband was one of the first in line at the Salem Civic Center the day that applications were being given out. We, like many others, were under the impression that they, the SBA, would take the applications that day. My husband spent the best part of the day going from booth to booth at the Civic Center to see our "needs". He finally came home with the application. We are educated people, but it took us many hours to fill out this application. We finally completed the application and sent it in around the middle of November.

We waited until December 31, when the SBA sent a young man to our home to assess the damage we had suffered. By this time, many things, i.e. our furnace and water heater, had been cleaned up and repaired. According to our calculations and estimates, we had approximately $41,000 damage. After about 20 minutes of surveying damages, he left. We later learned that this young man had estimated our damage at $28,500. How can a person who has never lived in my home give an accurate estimate?

We did not hear anything more until January 29, 1986. On that date we got a letter stating that our loan had been approved. In about ten days we received a packet of rules and regulations governing our loan. It took us over two hours to read the conditions and regulations for our loan. (At this point, my husband was ready to forget the whole mess and I was ready to call Mr. Reagan.)

In the loan authorization and agreement, it stated seven categories in which we were to spend the money. The young man who had been to our house assessed the damage and listed the following recommendations for dispursements:

A. Approximately $900.00 to repair/replace disaster damaged walls, ceilings, doors, etc.

B. Approximately $4,000.00 to repair/replace electrical, heating, plumbing and/or other utilities.

C. Approximately $11,600.00 to repair/replace disaster damaged personal property in similar kind and quantity.

D. Approximately $100.00 to repair/replace disaster damaged landscaping.

E. Approximately $1,000.00 to fill and regrade disaster eroded areas.

F. Approximately $900.00 to repair/replace disaster damaged walk(s) and driveway(s).

G. Approximately $4,000.00 to repair/replace other disaster damaged land improvements, including retaining wall.

Obviously, you cannot landscape for $100.00. Our lowest estimate for landscaping was $1,200.00. Also, they stated we could repair and replace the walks and driveway for $900.00. We assume they are including our patio in this category. The lowest estimate that we received in this area was $5,000.00 for replacement of the patio alone. If the SBA can find people to do the work at these prices, I request that they send their names to me immediately.

The SBA states that there can be MINOR deviations between categories, but no one seems to know what minor means. On the Thursday that we received our first packet we called the Legal Department of the SBA to see what they considered "minor deviations". Also, we were told in this packet that we needed receipts for all insurance monies spent. This was the first time that this was mentioned. We had not saved any receipts. Why were we not told to keep our receipts when given our application? You have other things on your mind when you are wading in mud than bookkeeping! We received approximately $6,000.00 from our flood insurance. It is very obvious that with as much damage as we had we would need to spend well over $6,000 to make our home livable again. We had to find out what to do about our lack of receipts. We phoned the SBA. The receptionist took our name and number, but they never returned our calls. We continued to try to get through to the Legal Department for over a week and finally we did reach an attorney. The attorney said that he thought that we could use personal property funds for real estate improvement. He did say that our application would have to be reviewed because of our lack of receipts.

Another ten days went by and we got our closing packet. Each time we received something from the SBA we became more and more discouraged. By now we were totally convinced that the SBA was trying to keep people from finalizing their loans. My husband had to take a vacation day to see to all of the red tape. We had to acquire an attorney to have a full title search done on our house. In the Commonwealth of Virginia, in order to certify a title as being good, you must be a certified attorney or a certified title company. My husband spent the day in the attorney's office, building permit office, our mortgage company's office, and with our insurance agent filling out all types or papers. After the added expenses of an attorney and more insurance, our papers were completed and mailed.

On March 12, 1986 the wonderful news arrived: WE DID NOT SEND THE INFORMATION IN CORRECTLY! The SBA stated that we need more flood insurance, they did not state how much more, however. Just two weeks before, we had increased our flood insurance by $191.00 per year to what our insurance agent said was full coverage. They also said we needed the original recorded Deed of Trust and a recorded copy of the warranty deed to the damaged property. These last two items had already been taken care of by our attorney.

Once again, we began the great adventure of trying to get through to the Legal Department so we could find out how much more flood insurance we would need. The receptionist was very indignant and wanted to take my name and number. By this time, I would have thought they would have known our name and number by memory after all of the times we had left this information with the receptionist. We finally got through to an attorney on March 18. He did not know how much more, if any, our flood insurance should be increased. He said he felt that we should have a sufficient amount since the hazard insurance had been approved for the same dollar amount. We also asked, once again, about the dispursement of the money - "Could we use the personal property monies for real estate improvements?" The attorney said,"Yes," but he could not authorize anything. After a few days, he called us back and said that after checking our files, we did not need more flood insurance. This was just another needless delay.

It is now March 24 and we are still waiting for our first check, almost two months after our loan had been approved. I am at the point that I am ready to forget it and go to a bank and my husband is now determined to go on with this challenge. We both feel that someone, somewhere, is trying to make people give up on these loans. It is ridiculous for a Disaster Loan to take over four months. Also, it is very frightening to borrow money with so many restrictions. I strongly feel that if you borrow money, no matter what the interest rate, an individual should have the right to spend the money where needed to repair his property. We are borrowing this money, not asking for a free handout!

The SBA is dealing with adults, not children. However, after all of these months, I am beginning to think the SBA feels we are all irresponsible and unintelligent. We were told by an SBA person the reason for all of these legalities is to make sure people repay their loans. My questions is - Does filling out paper after paper make a person repay their loan? People who are going to repay their loans will pay no matter what. Those who will not repay, won't no matter how much paper work they have to do.

We were told, by one of the loan officers from the SBA, to go on and get our work done. I would be scared to death to contract someone to do work and then it not meet with SBA standards, and they decide not to send me the money. It seems no one has the authority to approve anything concerning deviations in categories on money dispursements.

In conclusion, I have great sympathy for the flood victims from California who were given the same false hopes that we were given. I really feel for anyone who has to go through all of this bureaucratic red tape. I wish that I had the knowledge and foresight in November to go to my bank, so this chapter in my life would be closed. If I had not spent so much money on attorney's fees, phone calls to Atlanta, and extra insurance, I would cancel my loan now. My advice to anyone considering a Disaster Loan through the SBA is -- FORGET IT! It is not worth the headaches and nerve wracking experiences you have to go through.

Mr. OLIN. May I ask you one more question?

Ms. CRAIGHEAD. Sure.

Mr. OLIN. Did you visit the people at the Poff Building in the last 3 days to try and get your——

Ms. CRAIGHEAD. No. See, I have received my first check.

Mr. OLIN. You are all set in that case?

Ms. CRAIGHEAD. I got my first check on April 3.

Mr. OLIN. You believe you are all set? Providing you get approval for the allocation of the money.

Ms. CRAIGHEAD. And if they do not approve my $5,200 for my wall, I am in trouble; I will be calling you again.

Mr. OLIN. OK.

Mr. MAVROULES. I think if they do not approve it they better look out.

Thank you very much.

Ms. CRAIGHEAD. Thank you.

Mr. MAVROULES. That was very good testimony.

Mr. Craig, if you would continue.

TESTIMONY OF H. LYNWOOD CRAIG, JR., STAUNTON, VA

Mr. CRAIG. I want to thank you for allowing me to come testify before this committee.

On the night of the flood we were in the house and could not get out, and no one could come in and get us because of where we live. Finally, Tuesday after the flood we did get out; some neighbors helped us get across the river to get out, and went in town and spent the rest of the time with relatives for that week.

We went down on Saturday, the second week after the flood, and applied for the disaster assistance. And they told us then that within 2 weeks we would have something back from SBA. Of course, it was on December 24 before we had anything back at all.

Mr. Farrell came into our home to make an estimate of the damages. He assured us then that within 2 weeks we would have some information on the loan or have the loan. Well, by them telling us they were cutting all the red tape to expedite the loans, we took all the savings we had and cleaned up the house and had the driveway put back in temporarily so we could get in and get the vehicles out, which both were totalled.

Of course, the insurance company did replace the one vehicle, but the other one did not.

Finally, on the first week of February we got a call from the Atlanta Office, Mr. Wardlow I believe was his name, verifying the income and our work. Well, this gentleman called back I think at least eight times or so. He appeared he could not even read a tax return because he could not even read the figures across on a tax return to verify income.

Of course, we had to try to verify what we had on it because we did not have a tax return in front of us.

Finally, on February 11 he called again and verified that we were eligible for a loan for $84,100 at 4 percent for 28 years. And our total loss was $117,000.

Then again after waiting approximately 1½ weeks, I then called Mr. Olin's office in Staunton. And the lady there was very helpful in calling Atlanta and finding out the status of my loan.

Well, finally I received a call from Atlanta. And the lady I talked to was very, very upset because the first gentleman I had talked to had told me I was eligible for a loan. And she told me he had no authority whatsoever to even tell me I was eligible for a loan.

Well, by this time we of course had spent every cent we had to get back into the house. And this is the period of the year when my business is generally slower. I am self-employed. And I had to then go to the bank and try to borrow money, which I could not because I am at the limit. So they finally agreed to let me run behind on monthly payments until the loan would come through.

Finally it was about the 25th of February when I read in the paper that all the loans had been processed and were sent out, which was very untrue. It was finally on March 9 before I received my first set of loan papers. And I know that others know the red tape in the loan papers is something out of this world.

Now I do not know how they expect me to repay the loan when the bank will not authorize it. I am at the limit now and there is just no way I can even accept the loan that they offered.

Mr. **Mavroules**. I understand from your testimony also you owe some other bills that you have not talked about which are running behind——

Mr. **Craig**. That is correct.

Mr. **Mavroules** [continuing]. Quite severely; am I correct?

Mr. **Craig**. That is correct.

Finally I received the second packet of the loan papers. And it is just really a joke some of the things they ask you to send them. One thing is they asked for my marriage certificate. Now why, I have no idea.

But if I do take this loan and accept it, the day the first payment comes due on the loan I will be forced into bankruptcy. So I do not know why they cannot figure out what you can repay when they have the financial statement and everything.

Mr. **Olin**. I guess, if I could break in here, what you are really saying is that the evaluation of your situation could have been done way early in the course of this whole thing. They promised you a loan. Unless, I am not sure how but I guess the only way they would give you a loan is if you put their lien first, ahead of the bank. They might do that.

Mr. **Craig**. Well, it kind of appears that way.

Mr. **Olin**. I do not know if they have that authority.

Mr. **Craig**. And according to what I read in the loan papers, they want everything signed over to them as collateral.

Mr. **Olin**. Yes.

Mr. Craig. And of course, you could just as well say they are taking it over, because there is no way under the present circumstances I could repay what they are asking.

Mr. Olin. Yes. You obviously have a difficult situation. I do not know what the answer is. Certainly the answer is not stringing you along for 6 months because the answer has to be found to how you can repay. If you cannot repay you are going to have to get some help some other way.

Mr. Craig. Well, the only thing we were doing is just rebuilding a little bit at a time as we have it. But there is no way that I can even accept their loan under the present circumstances.

Mr. Olin. Yes. Well, I congratulate you for making a good, straightforward statement. And I do not understand, probably never will, why the SBA has gone through all this routine and then you are in a position of telling them that you cannot accept the loan, is what you have said.

Mr. Craig. That is correct.

Mr. Olin. That is good, honest—I congratulate you for being willing to come out with that. It is a difficult thing to deal with at a hearing of this nature. But I really appreciate your testimony.

Mr. Craig. Well, I do not think they really have qualified people there—it does not seem to me like it—to really go over the statements and everything that you send in to them.

Mr. Olin. This business of having somebody make a commitment to you and then the next person you talk to says that, no, that individual did not have the authority, that should not happen in any organization.

Mr. Craig. Well, each person you talk to there gives you a different answer. You cannot really get a straight answer from anyone you ever talk to at that place.

Mr. Olin. All right. Thank you.

[Mr. Craig's prepared statement follows:]

PREPARED STATEMENT OF H. LYNWOOD CRAIG, JR., STAUNTON, VA

On November 4th & 5th, 1985, we spent the whole day and night in our home in Lone Fountain, Virginia. The afternoon and night of the 5th other people tried to rescue us but could not get near due to the angry rushing waters. Most of that night was spent blocking doorways and moping up water from the floors. By Tuesday noon the water had receded enough for some of our neighbors, who had returned home, to lay some long boards from the bank to our bridge and aid us in crossing. They then proceded to take us into town, where we stayed with relatives for the rest of the week. I lost a total of 4 days from work and my wife lost 2 days. On Thursday and Friday we had an excavator come in and put the driveway back in enough for us to return home. Aside from the damages our home, equipment and land received, we also lost both of our vehicles; a car and a pick-up truck. At this time these vehicles were pulled from the rock and debris and towed away. On Saturday we returned home with eight (8) members of our families to clean, scrub and throw away.

On the following Saturday, November 16, 1985, we went to the Flood Disaster Center, which had been set up in one of the buildings at the Woodrow Wilson Rehab Center in Fishersville, Virginia. After filling out papers galore and talking to a dozen people, representing different areas of claims, we were told we would have cur money in two (2) weeks.

The following week I went to the Unemployment Office and applied for unemployment, for the days I was out of work. After spending several days during my lunch hour at the unemployment office, I was told that the unemployment period was for the two weeks following the Flood; therefore, I was not qualified, as I had only missed four days the week of the flood. This does not make any sense to me.

About 2½ weeks later, I received 2 papers back from the SBA. They wanted a copy of the Title to the Vehicle for which the Insurance Company had paid for. This was shown on the claim that had been submitted to SBA. I suppose they needed verification.

On December 24th, 1985, Mr. Farrell, the adjuster for SBA arrived at my home to make his estimates and verify the loss for our claim. Upon departing Mr. Farrell informed us that SBA would be back in touch with me in 2 weeks with the money.

The first week in February, 1986, I received a phone call from a Mr. Tom Wardlow in Atlanta SBA Office, this being the first contact since December 24, 1985. He was verifying my employment and that of my wife's. He also called her at her place of work several times. He was checking the copies of our tax returns sent in with the claim forms to SBA. This was the 1984 tax returns on which he was questioning the figures. Did not know what they were for. We could not really give him any positive answers as we did not have the return in front of us and they were filed a year ago. We were shocked to find SBA having a person or people checking tax returns who could not read them. After about six or seven telephone calls from this gentleman, he called again on February 11, 1986 to inform us that we were eligible for a loan of $84,100.00 @ an interest rate of 4% for a period of 28 years. The total amount of the claim Mr. Farrell had submitted to the SBA of his findings was $117,000.00.

After waiting another week and a half, and no word, I made a call to Mr. Jim Olin's Office in Staunton, Virginia. I spoke to one of the ladies in his office trying to find out why all the delay for the original two weeks. The time involved had now become 15 weeks. The lady informed me that she would check to find out the status of my loan and also informed me that Mr. Olin was very upset with the slowness of the SBA.

To date we have spent money, that should have been used on our regular bills, to pay for the temporary repairs and to make the house a little livable. We had to purchase another automobile, the one lost was paid for, which put us in debt further and outlay money for the purchase of another truck, as the insurance money received from the remains of the truck lost in the flood, was not sufficient. Other outlays of monies were for; having our driveway put back in enough so we could travel over it, our spring had to be completely cleaned and some new pipe had to be installed as the house settled in the mud and one of the pipes was crushed. Cleaning supplies, cleaning of the throw rugs, food that was lost and repair the floors and walls just in order that we could move back into the house. Also now our heat bills are doubled from the past years as all the insulation from under the house was completely washed away. For lack of funds we have not been able to have this put back and from having the above expense our regular bills have become past due. I can only do so much and keep my credit in good standing.

The local newspaper ran an article on the Flood Assistance, stating that all loan papers had been processed by February 25, 1986. On March 4th again I called Mr. Olin's Office.

The next day Ms. Patricia Forsyph from the SBA called me and was kind of hateful, saying that all claims were closed in 90 days. When I asked her why I was told 2 weeks she got very upset. When I told her that Mr. Wardlow told me I was approved for a loan, she said Mr. Wardlow had no right or authority to tell me this.
On March 6th Ms. Forsyph called again and told me the papers had been misplaced and I would receive my papers within 5 days. Well part of the loan papers were dated February 25 and part were dated March 4th. On March 9th I received the first packet of papers (loan) if you can call them such. I can in no way afford to pay back a loan the way this loan is set up; unless, I receive all the money and pay off the vehicles and have the work done at my discretion.
If I must repay the loan then I feel I must have some sayso as to how the monies should be spent. Afterall I am paying for it.
According to the loan papers from SBA, it appears that my home is their house and I have no say, whatsoever, in having the repairs done.
I have no qualms with their inspection after all the work is or has been done. Their second mortgage is fine with me also.
I have been in business for some twenty years and have borrowed large amounts of money for different purposes and have never had any one tell me how each and every penny would be spent, much less telling me they would write the check after a mechanics lein had been put against my property. Furthermore at the present time I have one federal loan which I obtained to turn one of my houses into low income apartments and I never had to go thru any of this.
If this is a disater loan, then I feel sorry for the people who are worse off than we are, for really I see it as a big joke.

If anyone would sign papers such as these, they will never in God's world own their own house again. It will always belong to the federal government. Also, this loan would put undue stress on the present mortgage holder. This is no way an assistance program, as I interpret it.

Also, I have to produce a copy of our marriage license to prove that my wife is my wife.

Any accountant - who is one - can look at the financial statement sent in with the SBA Claim Forms and tell that I cannot possibly afford this loan with my present expenses. If I were to sign these loan papers, as outlined, one day, then the day the loan payment comes due, I'd be forced into bankruptcy. Is this the way our government helps people?

Mr. **Mavroules**. Let me ask one question. Had the papers been expedited and the process reduced somewhat, would that have helped your situation?

Mr. **Craig**. Well, if I had not had to repurchase two automobiles because of the loss in the flood, it is a possibility we could have made it. But unless I take some of the proceeds and take care of that, which they do not allow for, well, I possibly could.

Mr. **Mavroules**. We will be asking those questions when the two gentlemen from SBA return to the witness table.

Thank you very much, appreciate it.

Mr. **Craig**. Thank you.

Mr. **Mavroules**. The last speaker of the panel, Mr. Steve Seymour.

Steve, would you proceed with your testimony, please?

TESTIMONY OF STEVE SEYMOUR, CASE MANAGER, ROANOKE VALLEY MENTAL HEALTH SERVICES, ROANOKE, VA

Mr. **Seymour**. First I would like to say thank you for inviting us here, Mr. Chairman, Mr. Olin.

Mr. **Mavroules**. Nice to have you. Thank you.

Mr. **Olin**. Thank you.

Mr. **Seymour**. Gentlemen, what I am about to say will be from the standpoint of a case manager. I work for Mental Health Services in Roanoke as a case manager. And I see people on a daily basis that were involved in the flood. My job is first contact, more or less, with the people to see what their needs are.

I would like to shorten this due to time by qualifying myself as far as filling out applications. I was with the military for 22 years. I filled out many, many Government applications.

I am glad I was preceded by these people here because they said precisely what I was about to say regarding the complexity of the application process. Speaking after these two educators, I am quite sure you can better understand my point. I find the application that is sent out by the Small Business Administration is much too complicated for the average person.

I would like to give you a case example of a family, comprised of a 66- and a 60-year-old, for whom I filled out an application.

Both of these people had worked all their lives. They had very little education. When I entered their home they had a table full of papers from the SBA. Neither of them knew exactly what to do with them.

I took the application and we began to gather the information that they needed. They had sent the application out twice and it had been returned twice. They had no idea what was going on, as far as what was missing from the applications.

These are people 66 and 60 years old. The husband was slightly retarded mentally and physically, and yet the wife had always relied on the husband to take care of their everyday business. These people had no means of getting out to places to get the information that was requested—bank loans, deeds, things of this nature. The wife was not able to drive, and neither was the husband.

We filled the application out. I had problems filling it out.

Now, I can thank Mr. Harrison of FEMA here in Roanoke, because he helped me fill out the papers. Other than that I never would have gotten them out.

Anyway, the papers were sent in along with the proof. I think the loan request was $19,000, and it was approved for $11,000. My first question was, if these people needed the $19,000, and they have put a lien on their house with the SBA for $11,000 where are they going to get the rest of the money from? They have two mortgages now. After spending $11,000 it is going to get to a point where they still need more money to live on.

I discussed this with this family. When the loan application came back approved, the people actually sat down and looked at the application and then they saw this lien and that everything they own would be tied up under this loan.

The first suggestion we discussed with these people was if one of them should die how would they be able to repay the loan? They had a total combined income of $909 a month. This was very, very devastating to these people. As a matter of fact, from the results of this process the husband had to be rehospitalized. He was no longer able to stand the stress. We actually had to commit him in the mental institution.

Now, my suggestion would be a help to people in any disaster. We were given the impression here in Virginia that if a loan is disapproved then a grant will be approved. My suggestion would be to first process the grant, and if the loan is approved take the money out of it. If the loan is not approved, the grant will be all they are going to get anyway because they are entitled to a $5,000 grant. These people need money immediately.

Take an example. These people's house was devastated. Everything they owned was lost. At that time, the husband was admitted to the hospital. The wife was alone, staying in a hotel by herself. This lady has medical and mental problems; she is not supposed to be alone. They have no money. They have no means of transportation. The only moneys these people had was $100 the Red Cross gave them, and $50 they got from another agency here. The only money they had. This is a very——

Mr. **Mavroules**. Let me interrupt you.

Mr. **Seymour**. Yes, sir.

Mr. **Mavroules**. Why could they not get some help from your State government?

Mr. **Seymour**. In what, how do you mean, sir?

Mr. **Mavroules**. Well, in human terms. They must have some programs to help people get through the hard times. Did they not get some help there?

Mr. **Seymour**. Absolutely. Like I say, these people are very—their mentality was not there to allow them to go out. They did not know what program to go to. They did not have any idea.

Mr. **Mavroules**. But there has got to be a way to help people like that. We have programs in my Commonwealth, I am sure you have them in Virginia, to help people over the hill until long-term assistance programs are established.

Mr. **Olin**. If the chairman could yield?

Mr. **Mavroules**. Please, Jim.

Mr. **Olin**. The Federal program does provide—maybe this is not enough—it does provide the $5,000.

Mr. **Seymour**. Right.

Mr. **Olin**. If the SBA loan is not the appropriate help. And it does not seem to be. That does not seem to be the help that is going to help them.

Mr. **Seymour**. Right.

Mr. **Olin**. And so the $5,000 ought to be authorized as soon as possible.

Mr. **Mavroules**. Sure.

Mr. **Olin**. That is really what you are saying; is that right?

Mr. **Seymour**. What I am saying, sir, is——

Mr. **Olin**. Maybe there needs to be more help.

Mr. **Seymour** [continuing]. Is exactly what you are saying.

Mr. **Olin**. Yes.

Mr. **Seymour**. I feel that if people are—if they are not qualified for a loan, the Government should give them $5,000. This should be provided up front.

Mr. **Olin**. So why, why is the SBA still working on that case, as though a loan was going to be granted? They never will grant that loan, I do not think.

Mr. **Seymour**. Oh, they granted an $11,000 loan.

Mr. **Olin**. Do they have the money?

Mr. **Seymour**. They never got the money.

Mr. **Olin**. Well, that is what I am saying.

Mr. **Seymour**. Well, see, during the time, they called them from Atlanta.

Mr. **Olin**. They will not get the money. If I asked Mr. Kulik is he going to loan $11,000 to a family that will never repay it, he will say no. When he finds that out, you know, they will never get the money. So they are wasting time, not only wasting time, but they are ruining those people's lives, in the way of handling it. That is what they are doing, they are ruining these people's lives by stretching them out, stringing them out instead of facing the facts, and giving them the $5,000, getting the Red Cross into it, getting the State into it, the welfare people, and so on. Let them live.

Mr. SEYMOUR. Absolutely.

Mr. OLIN. I do not know if the SBA knows what it is doing, but I am telling them what they are doing.

Mr. SEYMOUR. Well, a typical example, sir. We have people who have mentally shut down, due to stress by waiting on the loan so long, they have depended on the loan, they cannot function. Their whole outlook is waiting for these loans to come in. Now, if this loan is not approved, and does not come in, we are going to have lots of people in our program.

Another thing I would like to emphasize very strongly is, the language used in the application form. This is very disturbing to lots of people.

I have filled out forms, forms, and more forms. And lots of language that was in those forms was incomprehensible, very incomprehensible. And like I said, I was glad my testimony followed these people because they are educators and it was incomprehensive to them also, so I do not feel very dumb. But it was very incomprehensible language in those forms.

And the last thing I would like to say is what you were saying about the people 66 years old, I had a typical example of what you are saying. A lady and her husband lost their home in the flood. The lady earns $18,000 a year. The husband is retired. He draws approximately $9,000 a year. And their loan was disapproved.

And this loan for this couple making $900 a month was approved for $11,000, which they would have no means of repaying. It is very confusing.

Thank you, gentlemen, for having me.

Mr. MAVROULES. Thank you very much.

Harley. Jim.

Mr. OLIN. I think it has pretty much all been said here.

Mr. MAVROULES. Yes; I think it has been well said, as a matter of fact.

Thank you very, very much.

Mr. STAGGERS. Can I make one observation?

Mr. MAVROULES. Go ahead.

Mr. STAGGERS. You know, I keep hearing people sort of putting themselves down, that maybe I am not smart enough to fill these out. I think Ms. Craighead pointed out about the lawyer, you may take a degree in law. Well, I know that I have a law degree, and I am not sure that I could fill these things out.

We are going to have testimony over in West Virginia, from a lawyer who did try to help some people fill it out. And I think they had the same type of observations that you all had. So I do not think there is any real need, for anyone to feel inadequate here. It is the complicated forms.

I just wanted to make that observation.

Mr. MAVROULES. Thank you very much, Harley.

Thank you all very much for your testimony.

Mr. OLIN. Thank you very much.

Mr. MAVROULES. We now go on to our very last panel, and then we will have our SBA officials come back to us.

Mr. Addison Slayton, director of Emergency Services, Richmond; Mr. William F. Hawkins, president, Colonial American Bank, Roanoke; along with Kyle Umberger; and Mr. Richard Foster, law firm of Fox, Wooten and Hart, Roanoke, VA.

Let me welcome you and thank all of you for coming here this morning, gentlemen. We will begin the testimony with Mr. Slayton.

TESTIMONY OF ADDISON E. SLAYTON, JR., STATE COORDINATOR, VIRGINIA DEPARTMENT OF EMERGENCY SERVICES

Mr. SLAYTON. Thank you, Mr. Chairman.

On behalf of the Commonwealth of Virginia and the State department of emergency services, I will thank you for the opportunity to come before you and the members of your subcommittee today to discuss the Small Business Administration Disaster Loan Program as we in Virginia perceive it in light of our recent flood disaster experience.

First, I would like to say that for the most part the various Disaster Assistance Programs for the recent flood event of November 1985 have been efficiently and equitably administered by the Federal Government. In my oral testimony today I will highlight one area of concern, the SBA Disaster Loan Program and, particularly, its relationship and its impact on the Individual and Family Grant Program. That will be the gist of my comments.

I do not have any knowledge of the business loan experience. And you have heard enough of that already this morning to form your impression. Nor have I had any experience with the experience of individuals until this morning. So I will not comment on those areas.

I would like, however, to avail myself of the opportunity to file a more detailed written statement with you. And to this end, I have already done that.

Mr. MAVROULES. Very good.

Mr. SLAYTON. As you know, there are a myriad of individual Disaster Assistance Programs provided for by Public Law 93-288, which is the Disaster Relief Act of 1974. These programs include such things as temporary housing, unemployment assistance, business loans, food stamps, crisis counseling, and so forth. One program that is administered by the State and on a cost-sharing basis with the Federal Government is the Individual and Family Grant Program which is commonly referred to as the IFG Program. This is a court of last resort, if I may, for disaster victims who have no insurance and cannot, in most cases, qualify for any other kind of assistance.

The program can furnish grants of up to $5,000 to a family to help rebuild a home, replace personal property, and meet other urgent needs.

I emphasize this particular program for two reasons:

First, it is the only Government-provided assistance available to many needy people, and

Second, it is essential that we move with dispatch in getting assistance in the hands of this category of victim.

One of the prerequisites—and I would like to underscore the word "prerequisite"—one of the prerequisites for applicants to become eligible for the IFG Program is that they must first be screened by the SBA to determine if they qualify for a long-term, low-interest loan. When applicants are denied a SBA loan due to a lack of credit or for other reasons, they then become eligible to be considered for the IFG grant.

A primary irritant in this process is that routine SBA denials are taking much too long—up to 3 and 4 months in most cases.

When the Disaster Application Centers are opened in the disaster area, SBA representatives in these centers have a procedure whereby summary denials can be issued on the spot to some individuals. Therefore, direct coordination with IFG administrators who are also present in the centers can easily be effected.

However, once the Disaster Centers have closed the curtailing of the rapid denial process and the lack of face-to-face coordination ~~with~~ IFG personnel appears to contribute to a slowdown in the denial process. This results in delays in individuals receiving IFG grants.

I will not go into detail at this time. I will vary a little bit from my written statement because I was going to quote some facts and figures which you have already had quoted to you.

But I will summarize by saying that the Department of Social Services for the State of Virginia tells me that as of the end of March their information indicates that there are still some 280 cases which have not been acted upon. And of course, these are 280 potential cases for IFG.

Mr. Olin. Could I break in and ask you a question?

Mr. Slayton. Yes, sir.

Mr. Olin. Social services says that they know of 280 families then where they know, their information indicates the family will not get an SBA loan, they need the individual and family grant, but that has not been forthcoming; is that what you are saying?

Mr. Slayton. Let me answer your question this way, Congressman. I am not trying to sidestep you. But I do not know the specific answer to the question. I was told that there were 280 cases still outstanding. I really cannot tell you that all of these——

Mr. Olin. These are cases being followed by welfare or by social services?

Mr. Slayton. These are cases that are being followed by welfare, yes, sir.

Mr. Olin. OK.

Mr. Slayton. They have not gotten those cases yet.

Mr. Olin. OK, so they would be cases that the SBA ought to get on right away. And if they could make a quick decision it would be very helpful?

Mr. Slayton. Yes, sir.

Mr. Olin. OK. That is your point?

Mr. Slayton. That is my point, sir.

Mr. Olin. Right. Thank you.

Mr. Slayton. Now, another problem which has surfaced with the SBA of the Disaster Loan Program and which again impacts the IFG Program is this: There have been some 30 cases to date where an SBA loan denial has been given to an applicant and a subsequent IFG grant issued to the individual; SBA later granted the applicant a low-interest loan. This results, of course, in a double payment to the claimant, which is illegal. The question is, who collects the overpayment?

Since the IFG loan obviously is not eligible any more, you can see who has to collect it under the present system. And I do not need to tell you who comes off looking like what when you go back to a disaster victim and say "I have got to have that grant back."

Mr. Chairman, I am not familiar with the SBA processing problems. I am, however, aware of the delays and the problems this causes. In the spirit of constructive criticism, I have three suggestions which I feel should be explored by the SBA.

Let me comment on the first one. You have my written testimony. And I made this first recommendation before hearing what I have heard thus far this morning. I am going to depart just a little bit from what I had written here and say that basically I was suggesting that a very tight time limit and tight controls be placed on the application process in the interest of getting those applications back in quickly and getting the processing taken care of.

I made that on the assumption that the forms were a good deal simpler than they apparently are, and that the bureaucratic process was not what it appears to be.

So I would like to formally strike that first recommendation.

The second recommendation that I had is that I believe that the possibility of referring loan applications under a formal contract to local lending institutions for action would lighten the disaster caseload on the SBA. Perhaps something like splitting the process, with business loans being handled by lending institutions and, perhaps, individual loans be handled by the SBA might lighten the load, or some other division.

The point I am making is the same point that has been made here before. The lending institutions are in the business to make money. And they make loans and they make them fairly quickly and they get their money back. I do not see why the Federal Government cannot do the same thing.

Also, the Federal Government contracts for everything in the world, and I do not see why it cannot contract for this kind of service also.

My third recommendation is that I think the volume of paperwork that flows between the Small Business Administration and the IFG Program concerning each applicant should be examined with a view to computerizing the records. By the time each applicant's file reaches the State IFG panel, it takes a time-consuming review to ensure that no duplication of benefits will occur, and to determine applicant eligibility. Computerization of the file somewhere in the chain of events would speed up the process, reduce the paperwork, and ultimately speed up the assistance to the disaster victim.

After having offered these comments, which are a bit critical, I would like also to state that the SBA Disaster Loan Program is a very important part of the Individual Assistance Program since it is not duplicated at the State level. In addition, the Disaster Loan Program can, in certain situations, stand alone. And by that I mean it does not, in certain situations, require a Presidential declaration to come into effect. And in this respect it is a very important element of Federal disaster assistance. Now, I refer here to small disasters where the extent of damage is severe for those people who are affected, but the overall damage is not sufficient to warrant a Presidential declaration.

Mr. Chairman, this concludes my oral testimony. If you have any questions, sir, I would welcome them.

[Mr. Slayton's additional comments follow:]

ADDITIONAL COMMENTS OF ADDISON E. SLAYTON, JR., STATE COORDINATOR, VIRGINIA DEPARTMENT OF EMERGENCY SERVICES

Although the thrust of my oral testimony today centered around the disaster loan program administered by the SBA, there are other disaster assistance-related concerns that I feel should be addressed. This paper, which I would like added to the Subcommittee's record of the hearing, will discuss some problems and, in several instances, suggested remedies for them. The particular topics I would like to outline are: the Presidential disaster declaration request process; public disaster assistance claims administration; state-federal cost sharing for public disaster assistance; and hazard mitigation.

Immediately after the occurrence of a disastrous event, when emergency measures have been completed to save lives and property, when sheltering, feeding, and medical treatment of evacuees are established, a state becomes deeply involved in the "Declaration Request Process" which is necessary before a governor can ask the President for a major disaster declaration. This consists, primarily, of amassing a large volume of locally-generated damage assessment information. Federal declaration requirements call for a wide variety of statistical backup, in as much detail as possible. This is a particularly trying time for local jurisdictions that are trying to pick up the pieces and restore some order out of chaos and providing the state with such detailed data only adds to the burden. The format of the letter the governor of a state sends to the President requesting federal assistance contains several certifications and pro forma statements which are laid down by federal regulations. It is a tedious process, trying to make sure all items are covered, while at the same time not putting the governor in the position of making statements which may prove to be inaccurate later. In a natural catastrophe, such as was experienced by Virginia and West Virginia last November, the sense of urgency and the crying need for federal assistance was both acute and, we believe, apparent. The need for a speedy declaration by the President, required to make a state eligible for all federal disaster assistance, was quite critical. We believe that, in a catastrophic type disaster, the overly definitive procedure mentioned above could be waived, or at least postponed temporarily and a summary recommendation made to the President. A simple helicopter overflight of the disaster area by knowledgeable federal/state/local disaster officials would immediately verify the existence of a disaster of large magnitude. The request for a major disaster declaration by the President could be informally made to FEMA, without recourse to the time-consuming and burdensome administrative procedures currently and immediately required to accompany disaster declaration submissions. I do not question the need for certain kinds of information, but this backup, with the necessary affirmations and certifications could be forwarded by the governor after the actual declaration has been made. Timeliness of a Presidential declaration is very important to disaster victims. To those having suffered great and traumatic losses, the knowledge that relief is coming is, in itself, a great relief.

The normal documentation and procedures should continue to be adhered to in cases of small disasters, which do not have the urgency connected with a major catastrophe, and where the need for speed in obtaining the declaration is not as great. Our system of damage assessment information gathering and other data collection is geared to a 72-hour time frame. In relatively small disasters, this system can be allowed to work properly. The requisite damage figures, certifications, and other information contained in the governor's letter to the President would therefore be more accurate and submitted with a higher degree of confidence.

In the area of "Public Disaster Assistance" (assistance in the restoration of publicly-owned property), based upon our recent experience, we recommend the following changes in the delivery of federal disaster relief programs which would help speed payments for reconstruction work to those declared jurisdictions badly in need of help:

I. Amend PL 93-288 (The Disaster Relief Act of 1974) to increase the cap on small project grants to $100,000 in place of the present $25,000. Such grants do not require an audit and can be paid soon after federal approval of the application without the usual requirements for reimbursement documentation, 30-day advances, etc.

II. Allow any Disaster Survey Report (DSR) of $25,000 or less to be treated as a small project grant, at the applicant's option, and therefore not subject to audit and the attendant time-consuming procedures. A DSR represents a single piece of damage, and an applicant can have an unlimited number of DSRs that make up the project application. At present, this proposed feature applies only to an entire project application and thus limits flexibility and prolongs the time frame for receiving payment.

III. Amend the federal Single Audit Act (PL 98-502) to make audits of disaster projects or parts of projects eligible for 100 percent federal reimbursement. This would speed final payments and help local governments in three ways:

    A. FEMA now withholds the final 25 percent of the federal share of a project application pending final review and audit. The Single Audit Act provides that a local annual audit is sufficient for federal purposes but overlooks the fact that a disaster project may be completed several months ahead of the next local audit, resulting in a delay in final payment of up to a year or more.

    B. By making audits eligible for federal reimbursement, applicants will not have to spend money in order to get final payments.

C. By allowing partial audits (at the DSR level), final payments can be received on small projects while long-term projects that may require several years to complete are still ongoing.

IV. Examine the methods FEMA now uses for management of disaster project applications for large disasters to determine if faster processing would result, and be feasible, if more resources were made available at or near the project approval level. Specifically, more FEMA review/approval personnel stationed at the Disaster Field Office as Public Assistance Officers would speed up the project application process. The current practice seems to be one such official regardless of the size of the disaster.

It is recognized that a basic dichotomy exists concerning the administration of both public and individual disaster assistance: the need to get relief to victims as quickly as possible versus the legal requirements to account fully for the expenditures of public funds. Jurisdictions which have suffered grievous damage from a natural disaster are placed under tremendous pressure from citizens and the media to restore all public services and facilities to a normal, pre-disaster status as soon as possible. On the other hand, disaster assistance administration officials, from both the state and federal levels of government, are constrained by the necessity for following strict administrative/accounting procedures as outlined in regulations. These regulations allow some flexibility, but very little. I believe, however, that the recommendations offered will help speed needed payments while not sacrificing reasonable accountability.

In further connection with the public assistance area, FEMA proposes to set up a public disaster assistance sliding scale cost-sharing mechanism based upon "the degree of disaster damage." This would create an approximate cost-sharing ratio of 50 percent federal and 50 percent state/local for public assistance. FEMA's announced purpose in instituting this new split is to make state/local governments more accountable for minor disasters "which will allow the federal government to provide a bigger share for major events."

The current ratio for public assistance is 75 percent federal share and 25 percent state/local share of eligible costs. This change would be a significant development. To give some idea of the funding impact on the states and affected localities, the cost to Virginia for public assistance alone for the November 1985 flood is estimated to exceed $8 million; under the new proposal, this figure would double. Also, the "degree of damage" concept would be an extremely difficult set of criteria to determine and examine. Would economic impact be considered, i.e., pre-disaster percentages of unemployment? Would disaster damage in light of any recent disaster experience be taken into account? What about disaster damage as a coefficient of ability to pay (i.e., state/local levels of indebtedness)?

We oppose this proposed FEMA concept. A more equitable way to administer cost sharing, in our opinion, is to establish a fixed sharing ratio and stay with it. If something additional is needed for unusually severe disasters (i.e., catastrophes), then a different ratio can be established with a ceiling on state public assistance costs based, for example, upon cost per capita of a state's population.

Another of the disaster assistance programs promulgated by FEMA is hazard mitgation. This is a program whereby states and local jurisdictions, with federal advice, may consider and determine mitigation measures which could be applied to a particular disaster event which has occurred. Specifically, mitigation measures are efforts which can be taken to eliminate hazards entirely, reduce the probability of their occurring, or reoccuring, and to minimize their effects if they are unavoidable. The objects of such actions are, of course, to reduce future damage from disasters and the need for disaster assistance thereby. There is currently a renewed emphasis on the part of FEMA in the general area of hazard mitigation. This program is in addition to the requirement outlined in Section 406, PL 93-288, for a state to mitigate a specific hazard in the area of a Presidentially-declared disaster as a condition for receiving federal disaster assistance under the Disaster Relief Act of 1974. Unfortunately, there are currently no federal funds available for hazard mitigation measures by the states, either on a matching basis or in the form of 100 percent grants. The current director of FEMA in a recent address before the National Association of County Officials indicated that further changes are in the making that will require a more serious hazard mitigation effort by the states in the future. This, combined with the possibility of a greater disaster cost burden imposed on the states in the future, makes the hazard mitigation effort all the more important and emphasizes the need for more federal resources. I submit that such money would be well spent since it should reduce future disaster costs.

Mr. MAVROULES. Thank you very much. We will go through the panel and, of course, if we have any questions we will ask them at that time.

Mr. SLAYTON. Thank you, sir.

Mr. MAVROULES. Thank you very much.

Mr. Hawkins, if you would proceed please.

TESTIMONY OF WILLIAM F. HAWKINS, PRESIDENT, COLONIAL AMERICAN BANK, ROANOKE, VA

Mr. HAWKINS. Thank you very much. I have some remarks to make or observations, I guess, in three broad categories: First, the basic considerations involved in this type of funding or financing; second, the economic considerations that we all deal with; and, third, several recommendations that might be considered to help improve the process.

Kyle Umberger with me is our executive vice president for our commercial lending. And he has some experiences of some examples that may be helpful in demonstrating some of the points that we are making.

First off, in speaking about business considerations, when you have a disaster or any kind of an unfortunate occurrence, obviously, relief funds are needed very quickly. When you are looking at the pursuit of business, time becomes a very critical evidence. Lost motion, slowdowns, lost opportunities are very difficult to replace.

One quick example may make some sense. When the flood hit in November a number of the businesses were dealing with the seasonal period of Christmas. You do not go out incurring delays and reinventory your business, you have lost that season if you are not able to get geared back up very, very quickly. So that is just one example of when I say time is critical. You cannot measure that in terms of motions or money, you measure it in terms of lost opportunity, and that is very difficult to quantify in some cases.

A second point as far as the business considerations I think is that small firms do not have excess funding capacity. Large firms have reserves.

My own company experienced flood damage. We have the capacity to dig into our own resources to take care of our own problems. But smaller firms do not have the excess funding capacity. If they did, they would not be having these difficulties with funds right now, they would go about their own business, maintaining and repairing, and get on with things.

A third point, I believe, in understanding the business considerations is that small firms do not have excess management capacity. When you are dealing with a very complex issue of financing and you are dealing with a process of trying to get a business back in shape you do not have staff available to pull off other work to sit down with lawyers, accountants, SBA officials to go through the hours and hours of understanding documentation. That management time required to do that is time that man or woman loses in regearing their business.

And again, with a small firm where you do not have a support team to back you up that is an opportunity you would never recover from.

I think the fourth point as far as the business considerations is that local banks know the financial situations of our customers. They can make prompt assessments of risk. They also can make a very prompt determination of the customer's, or in this case, the victim's, if you will, ability to repay.

I happened to come in an hour or so ago and heard several of the comments made. And people seemed to be saying, well, we have to find out whether somebody can repay. Who is better equipped to know that than the people who are on the scene who have been dealing with these people's ability to repay for years, and years, and years? So it seems to me in assessing a business consideration it makes no sense to have somebody removed from the whole process trying to become educated when other people are presently involved and are educated in these abilities to understand the financial environment and the ability to repay.

Moving on to some economic considerations or observations, and these to some degree flow together. But you have a tremendous revenue and productivity loss in getting bogged down in these extraordinary administrative procedures we are talking about.

If you are looking at economic interest, are you not better off to have these people spend their time trying to work in the pursuit of their business than spend their time in lost motion and in nonproductive administrative processes? That time is an economic consideration.

When you take somebody—and I heard one gentleman here earlier, Mr. Cole would be a good example, I think, of this. He is one of our customers. We did help him with the flood. But his business depends heavily on his ability to function, depends heavily on his ability to sell products, to negotiate contracts, to collect his own debts, to manage his people, to supervise in the field. When you take him away from that, when you take him away from those business pursuits, he experiences tremendous loss of revenue and productivity.

Second, and this I guess I will put on both the businessman's hat as well as the taxpayer's hat, I am very concerned about what I am hearing here from the standpoint of the cost to the taxpayers to go through this enormously complex process that is being described. Obviously, I do not have access to this information, but I would tend to guess that we are spending many more dollars in forms and in salaries to answer the questions than are being asked for in loans. Now that, to me, is ridiculous. Months, and months, and months of staff time; somebody is paying the bills for these staff people.

And that is a very expensive process for us as a taxpayer to consider, when you have to understand very little money is flowing back out of it.

So the economic considerations flow both from the standpoint of the business side of it where individuals have lost revenue, and then you have also the taxpayer side of it and that we are spending enormous sums of money to go through a very complex process.

Taking these two previous categories, the business considerations and the economic, lead me to have about three recommendations that I would like to pose for consideration.

No. 1, use the banking system. It is in place, it works, the customers understand it, it represents local custom, local practice, and local law. Be it in Virginia, or be it in California, or be it in New York, or be it in Kansas, there are differences. And obviously, each locality's banking system represents those differences. The documentation in place reflects those differences.

Now, we do not need to reinvent the wheel to handle financing responsibilities.

My second recommendation is to have the SBA or some other governmental agency continue in the form of providing interest rate subsidies where they are appropriate. That is a very valuable function, obviously. And also to provide guarantees where individuals need that.

The issue really is how can the SBA or some agency feel comfortable in providing a rate subsidy and also providing guarantees.

Which leads me to my third recommendation, and that is, have the SBA or, again, the appropriate body accept the standard documentation that is in place when you are doing lending or financial transactions. There is no reason to have a new system. The SBA does not need to have its own documentation. The private banking system in this country spends enormous sums of money with lawyers and accountants understanding laws, understanding tax consequences, and these documents reflect that. They stand up in court, they are defensible.

Again, I would suggest that it is a recommendation that the SBA use these standard documents because they do reflect, again, the local situations.

I guess in conclusion I would say if the existing banking system and the documentation that the customers understand, the customers use, and that we can process in a matter of 1 or 2 days, not 3 or 4 or 5 months, if that documentation is adequate, if it is adequate for safe banking, then why should it not be adequate for the SBA to use.

Thank you very much for your time and interest.

Mr. MAVROULES. Thank you.

Mr. OLIN. Thank you, Bill.

Mr. MAVROULES. Thank you very much.

Mr. Umberger, are you going to testify also?

Mr. UMBERGER. Yes, sir.

Mr. MAVROULES. We are pleased to listen to you.

Mr. UMBERGER. Thank you.

Mr. OLIN. We can shift the mike, if you would.

TESTIMONY OF KYLE UMBERGER, EXECUTIVE VICE PRESIDENT, COLONIAL AMERICAN BANK, ROANOKE, VA

Mr. UMBERGER. My comments will be more reportorial.

On the Sunday after the flood I, as a representative of our bank, met with all the representatives of all of the valley lenders, banks, and savings and loans, as well as representatives of the SBA. On that day the lenders charted a course of action that they would be pursuing, and we also heard from the SBA when they would be establishing their office, the procedures that they would be employing, and how we could assist them to assist our customers in receiving aid.

During the presentation by the SBA we heard summaries of periods of time in which they were accustomed to delivering aid into the hands of applicants. And, unfortunately I do not still have my notes, but the time period that sticks in my mind was that a high percentage of applicants could expect to have money in their hands within 90 days.

Five months later, today, I surveyed 13 of our damaged commercial businesses and asked them what experience they had had in dealing with the SBA. First, one of them said, "I did not bother to apply." Four told me they had made application but had abandoned the process. And the reasons that I heard for abandoning the process were: one, excessive requirement of documentation, filling out forms and these types of things; second, an inability to negotiate with the people with whom they were dealing.

For example, if I am going to be required to fully guarantee the obligation of my corporation, why should I have to turn around then and sign a document saying I will not pay myself a bonus during the time that the loan is outstanding? It is me that is on the hook one way or the other. But nobody would be in the position to negotiate. The documents are there and they have to be complied with.

And then, third, and this goes hand in hand, a handcuffing of the applicants in terms of lack of flexibility. A small businessman, for example, has to have flexibility. He may not have advance notice that I will need to do something 90 days hence in order to obtain SBA permission to do it.

A lot of times we know that those people have to have the flexibility to function and then come to the lender and say, "Here is what I had to do. I now seek your permission to do it or ask you to validate the action that I had to take."

I also found that 8 of those 13 people have been approved for money but no money has flowed, nobody has received any cash.

We and our customers are disappointed with the system, primarily because we know that our customers should have been able to benefit from it, and because we assisted those customers in preparing their applications. We think that they should have had more timely service.

Thank you.

Mr. **Mavroules**. Thank you very much.

And we will conclude this panel now with testimony from Mr. Foster.

TESTIMONY OF RICHARD E.B. FOSTER, ESQ., LAW FIRM OF FOX, WOOTEN & HART, ROANOKE, VA

Mr. **Foster**. Mr. Chairman, being the last speaker of the last panel, I will follow your admonition and give you a brief summary of what is set forth in my written remarks which have been submitted to the committee.

Mr. **Mavroules**. Thank you.

Mr. **Foster**. The firm that I am with represents a number of small businesses which were seriously affected by the flood. And the points that I am going to bring up for the committee's consideration are really a compilation of their experiences, and some recommendations as to changes which I feel need to be made in order to make the program truly responsive to the needs of small business men who have been seriously affected by our natural disasters such as the flood which we experienced in November.

The first thing which has been touched upon by almost everybody who has spoken, but which is a very critical concern, is the delay factor. Every business that we represented that was in the flood plain or was hit by the flood, had a serious interruption and immediate interruption with their ongoing business.

Now, in order for a business to really be in a position to take the benefit or to use the benefit of long-term financing to overcome these problems they need immediate help.

One example would be a business that we represent was in the oil delivery business. Its trucks were all down as a result of the flood. Unless there is immediate repair or replacement of these trucks and the ability to deliver oil to the customers, it really does not matter that 3 or 4 months down the road there might be long-term financing in place because his business is going to be effectively destroyed as a result of that disaster.

And it has been pointed out by almost everyone who spoke, the ability for the SBA to respond quickly is just not there. Of the people that we represent, we have had I think seven or eight who have applied or have been eligible to apply for SBA loans. Only one of those as of this point in time has received a commitment that the funds will be available, but no money has actually flowed to that particular business.

Now, the businesses that we represent represent a wide range of financial stability at the time that the flood hit. The one thing they all had in common is at the time of the flood they were viable, ongoing businesses. Now, the ones that had the greater amount of financial resources can certainly draw on those financial resources to immediately get themselves back into business in terms of replacing lost inventory, to make the repairs to machinery and equipment which is critical for the ongoing process of the business, and to participate in the cleanup which is needed.

But as you go down the spectrum, there are a number of businesses which, while viable and ongoing at the time that the flood hit, had a great deal of debt that they were servicing at the time. They were able to pay that debt due to the fact that they were participating in business, they had receipts coming in. But the flood interrupted that. Production was cut down, inventory was destroyed, the business may have come to a complete stop for 6 to 8 weeks. And as a result of the cutoff of cash-flow, the result of the loss of orders, these businesses, by the time they are applying for the SBA loan, are in a very critical situation.

And the standard which is used, as far as I can determine, for an SBA disaster loan, is really the standards for a regular SBA loan in determining what the creditworthiness of a business needs to be in order to get the funds. So, it really does not respond to a business in terms of immediate disaster assistance.

Mr. **Mavroules**. How do you feel about the recommendation made by Mr. Hawkins?

Mr. **Foster**. I think all of Mr. Hawkins' recommendations were excellent. And a lot of what I am saying I realize reiterates what Bill said. And I am in 100-percent agreement with what he said and how he analyzed the problem.

Mr. **Mavroules**. I did not mean to throw you off. But I just wanted it for the record here this morning.

Mr. **Foster**. No, no; that is fine. I think that there needs to be some type of mechanism or review of the disaster program to take into account businesses that, but for the disaster, were viable, ongoing businesses, but because of the interruption may no longer be considered in the abstract creditworthy for a normal SBA loan or for a loan through the normal banking channels.

And as far as I can determine, no such mechanism is in place. And as a result of that the program is not responsive to a number of businesses, including some businesses which employ a number of people, to meet the immediate needs after the disaster occurred.

Finally, one other point which I think is noteworthy is that there is not much flexibility in how you can use the money. We have an example of a client who is in light manufacturing who ultimately made the decision not to apply for an SBA loan. And one of the reasons was that a great deal of his equipment was destroyed that he used in the manufacturing process, and he was told by the SBA that that equipment had to replace like kind for like kind, and no flexibility was given in terms of purchasing other equipment and more modern equipment.

As a result of that, he made the business decision that he would not incur additional debt to buy machinery that was really obsolete. It had been paid for. It was outmoded. Then he is not going to be in the position of borrowing new money to buy the same kind of equipment. He would rather go to commercial sources and buy more modern equipment, even if it is at a higher rate.

I think that certainly the purpose in the SBA, if they allowed more flexibility, would really not be giving such a business an unfair competitive advantage but responding to a critical need which resulted because of the disaster.

And those are really the comments that I wanted to emphasize from my written statement. And I would be happy to answer any questions.

[Mr. Foster's prepared statement follows:]

PREPARED STATEMENT OF RICHARD E.B. FOSTER, ESQ.,
LAW FIRM OF FOX, WOOTEN & HART,
ROANOKE, VA

LAW OFFICES
FOX, WOOTEN & HART
A PROFESSIONAL CORPORATION
SEVEN-O-SEVEN BUILDING
P. O. BOX 12247
ROANOKE, VIRGINIA 24024-2247
(703) 343-2451

CHARLES D. FOX, III
GEORGE W. WOOTEN
DAVID B. HART
GARY E. TEGENKAMP
M. LANIER WOODRUM
L. THOMPSON HANES
RICHARD E. B. FOSTER
THOMAS R. McCLELLAN
RICHARD L. BURGER
SUSAN A. WADDELL
BRADLEY D. McGRAW
STEVEN H. THEISEN

CHARLES E. MILLS, III, OF COUNSEL
WILLIAM E. VALENTINE, OF COUNSEL

SUITE 318, THE CRILLEY WAREHOUSE
218 NORTH LEE STREET
ALEXANDRIA, VIRGINIA 22314-2687
(703) 836-0645

April 4, 1986

To: The Honorable Nicholas Mavroules, Chairman
The Honorable Berkley Bedell
The Honorable Norman Sisisky
The Honorable Jim Cooper
The Honorable Jim Olin
The Honorable Joseph P. Addabbo
The Honorable Silvio O. Conte
The Honorable Joseph J. DioGuardi
The Honorable Jim Kolbe
The Honorable Stewart B. McKinney

Dear Members:

Thank you for the opportunity to comment on the SBA disaster assistance loan program. The purpose of the disaster loan program is to provide immediate low interest loans to victims of disaster. Unfortunately, the program as it has operated in Roanoke after the November 1985 flood has often failed to meet this objective. In our experience there are two major shortcomings in the program which prevent it from meeting the legitimate needs of businesses which have been damaged by a disaster. The first is that the loan process is cumbersome and lengthy. Secondly, the loan criteria established by the SBA is unrealistic. Each of these points will be discussed briefly.

After the flood, our firm represented a number of clients who had suffered severe losses. The types of businesses ranged from manufacturing to warehousing to distribution. The types of loss suffered included destruction of inventory, damage to machinery and equipment and loss of records. All the businesses needed massive cleanup efforts once the flood waters had receded. The one common thread connecting all these businesses is that the flood caused an immediate and severe interruption of business activity. What was needed were immediate funds to replace inventory, or repair equipment or reconstruct records to allow the businesses to begin operating. For whatever reason, it has now been six months, and no money has been disbursed. The result is that the businesses have had to rely on other fund sources to do enough to get operational. Where businesses have resources to fall back on, this can be accomplished, at least to some degree. Often these other sources are not the company's, but are loaned by individuals associated with the company. Such loans are intended to be bridge loans and the longer the company has to wait for SBA approval, the greater the potential harm to the individual loaners. Also, some businesses were so damaged that they did not have access to other resources and could not continue to operate.

One client who operates a cold storage warehouse, had damage to his cooling equipment and elevators. Unless these were fixed, it could not stay in business. The client had to use his own money to make the necessary minimal repairs despite having made an application for disaster loan assistance. As the president of the company said, if he had relied on SBA funds to deal with the damage, the company would today be bankrupt.

It takes less time to have a regular SBA loan approved than a disaster loan. The reasons for the delay include SBA personnel not being able to answer questions and new loan auditors requesting the same information that has been previously supplied. Regardless of the reasons, the end result is that the SBA does not have in place a system that can effectively respond to emergency situations.

The second major problem with the disaster loan program is that the criteria for a loan is basically the same as a regular SBA loan, with the exception of offering a lower interest rate. A business which has just suffered losses due to a disaster, however, is not in the same position as a new business or an ongoing business seeking a regular SBA loan. Often the damaged business will have previous debt and obligations which makes it unqualified for a loan. This may happen even though the business prior to the disaster was perfectly able to operate. What is needed is for the SBA to establish criteria which deals with the fact that the businesses have been damaged. The SBA may need to take more risk in that it cannot be as secured on the disaster loan as on a regular loan. As long as the present criteria for disaster loans is kept, many otherwise viable businesses which have suffered losses will not be eligible. Several businesses also have not bothered to pursue disaster loans when they realized the criteria.

The manner in which the SBA requires the money to be used is also often unrealistic. All funds loaned are earmarked for certain purposes. Damaged equipment must be replaced with like equipment, even if that equipment is obsolete. An example of this is a manufacturing company that had several machines, including an old iron working machine, damaged. The machine was used in production, but it would have been uneconomical to purchase a replacement. If the program had more flexibility, the damaged pieces of machinery could have been replaced with fewer newer machines which could have done the same job. Businesses are not going to incur additional debt to buy obsolete equipment.

In summary, while the disaster loan assistance act will ultimately prove beneficial for some companies who have been able to keep afloat during the lengthy approval process, it has basically failed to respond quickly and efficiently to the majority of businesses damaged in the flood.

Mr. MAVROULES. Thank you very much.

Jim, do you have any questions at this point?

Mr. OLIN. Thank you, Mr. Chairman. In the interest of time I am going to minimize my questions with this group. I want to get back to the officials of the SBA.

I would like to thank Addison Slayton for his testimony. And I have read your addendum to your statement. That will be very helpful in terms of other actions that the Congress ought to consider. And I really appreciate that.

I would like to thank the other three of you very much. A couple of you are my neighbors and good close friends, all close friends.

Bill, I wonder if I could ask you a little bit more about the relationship that might be created just between the U.S. Government and the banking system on disaster loans.

Currently, the SBA has the total authority to make direct loans. If we were to arrange a partnership of some kind there are a number of possibilities. One is that we could contract out work where the basic responsibility stays where it was. Another possibility would be to share the loan, where the bank would take some percentage of the loan and the Government would take some percentage. The bank would administer the loan. Basically, the Government's contribution would be to supply a lower interest rate on a portion of the loan.

Could you comment on that latter kind of an arrangement? Would that seem to be practical to you? And do you have any concept as to the division of responsibility that might make sense?

Mr. HAWKINS. Yes; I think so, Jim. You hit on two things that, or I guess three things that kind of go through the entire process. One, you have the ability to have a rate subsidy or to provide a lower cost of money to individuals or businesses which are having some economic difficulty. And that makes sense. People who need some help, need the help both on time and also on cost.

Additionally, when you have somebody who has lost the ability to supply oil and so forth, there is some income problem.

Second, I think the idea of some guarantees. When you have economic viability it raises a question because of some national or natural disaster, you have to go to some other extremes, possibly, to support the financial foundations. So the guarantee aspect of it is important.

And then the third thing is the partnership. When I said earlier I think the banking system is in place, it should be used, I think that really is the foundation under which a partnership can be established. And there may be a couple of ways you can go with this. I also mentioned documentation is pretty well established in various jurisdictions.

Mr. OLIN. I buy that entirely.

Mr. HAWKINS. So, you can take, possibly, the banking community in a given environment, say the State of Virginia, and they could sit down with the SBA and look at the State of Virginia as a whole. And you could come on, maybe the Virginia Banking Association as a group could be this arm, and you work with the SBA in advance of, and say, all right, these are the things we will do, these are the procedures that will be employed when this happens. As long as the banking system employs these preapproved, preunderstood approaches, then the SBA will offer the guarantees and the system can move very quickly. It transfers the burden to the private sector to administer procedures and controls.

Mr. OLIN. Would you visualize the bank taking a part of that loan, say 10, 20 percent, at its own risk?

Mr. HAWKINS. We do now on SBA programs. I would not see where that would be a difficult thing to, again, hammer out. The key thing, I think, Jim, is to hammer out ahead of time to where these things are in place and they are set.

Mr. OLIN. You think that we would be likely to be able to come up with a national uniform program of that kind or do you think it would really have to be negotiated State by State?

Mr. HAWKINS. Kyle, how would you deal with the documentation issue? That is the key thing, I guess.

Mr. UMBERGER. I would think that——

Mr. OLIN. State by State gets to be one big problem.

Mr. HAWKINS. I think either that or I think at least where you have sufficient commonality of law to where the documentation could truly represent the needs of that jurisdiction.

Mr. OLIN. On the concept of the loan guaranty and the interest rate and the division of liability for the loan, could that part be spread across the country do you think?

Mr. HAWKINS. Oh, I think so, yes.

Mr. OLIN. Yes.

Mr. HAWKINS. We do.

Mr. OLIN. And obviously the local law and the forms might have to be handled locally.

Mr. HAWKINS. Right. Jim, the other part of it, too, I think is the partnership. It should not be that difficult to get appropriate officials, be it the SBA or some other body, to accept documentation that can be used.

Mr. OLIN. Yes.

Mr. HAWKINS. We all have the same thing. We have lending arrangements where we may participate with a bank in New York, a bank in North Carolina. We may be the originating bank; it is on our documentation. The bank in New York has said in advance, "We will accept that documentation as long as you meet the terms and conditions."

So, if the private sector can arrange those kinds of partnerships, I cannot imagine why it cannot be done with the Government.

Mr. OLIN. Bill, I really thank you for appearing. Your testimony was extremely well thought through and well presented and the ideas were good.

We clearly have a situation here that is unsatisfactory. I doubt that we are going to fix it through the present structure. They have had it for 30 years. It is not working. It is probably just as bad everywhere it works. It needs to be changed.

And so I appreciate your imput. We may be back to talk with you further if we develop that idea a little bit more.

Thank you, Mr. Chairman.

Mr. HAWKINS. Thank you very much. Jim, thank you.

Mr. MAVROULES. I want to thank all of you for your testimony and appearance here this morning. Thank you.

Now, if I could recall Mr. Kulik and Mr. Nash.

Thank you gentlemen for hanging in there with us.

I just want to make a statement which I think is quite important. I want to make my feelings known to all of you.

We all recognize that the wheels of Government turn slowly, but I would think that there should be a way to expedite this process in times of crisis for the very survival of the community. And people, as we have heard this morning, depend upon a quick response from the Government and its agencies.

This is not a case where someone is coming to an SBA office for a standard SBA loan; this is an emergency. It has been declared a disaster area, and we should be able to respond now and worry about the garbage later. And I am being very honest with you, very candid.

You have heard the complaints here this morning. They are real. These people are hardworking people.

You know, I had a fire in Lynn, MA. Do you remember that one?

Mr. KULIK. Yes, sir.

Mr. MAVROULES. Twenty-eight businesses went out of business. Three blocks were burned out. Three people lost their lives. I did not get one-tenth the complaints in my district, quite honestly, that Mr. Olin and Harley are receiving here this morning.

And I want you to know that, because I think this is following a different pattern here. We are not here to cut your neck, we want to be helpful. But you are going to have to help us, too.

The point I want to make is that the misinformation, the misleading statements, the insensitivity by some of your people, is just outrageous. I can tell you this, if they worked for me they would be fired in 30 seconds, because the public pays their salaries, as they pay yours and mine.

Frustrations are being built up in people, not only here in Virginia, but in West Virginia, and all throughout the area. I cannot believe that we cannot respond as a nation to an emergency when we know a gentleman is losing his home.

As the teacher so aptly stated, they have been waiting so long, that the frustration has built up. It must be frustrating to deal with the telephone expenses calling Atlanta, and then getting the answers, "Well it is not my jurisdiction." "Oh, wait a minute. Call someone else." "Oh, hold on. Call someone else." In the meantime their homes are falling apart, their businesses are falling apart. I cannot believe we are doing that.

I am not taking you on, but I just want some guarantees from both of you that we are going to expedite this process. I have got to have that promise before I leave here and go to West Virginia. You are going with me too, and we are going to hear some more horror stories. We must take care of some of the problems confronting these people here.

I am going to ask Jim to say a few words, and Harley, and then maybe you can explain things to us.

Mr. KULIK. May I respond to you, Mr. Chairman?

First of all, let me assure you that we will look at all of the testimony given here today, including the written statements, and that we will very carefully and seriously consider all the recommendations that are made.

May I respectfully request in return that we have an opportunity to make comments upon the testimony as given and upon the written statements so that you may hear our views of the matters discussed?

Mr. MAVROULES. The record will remain open, I want to assure you. And we can get your responses to the testimony this morning. But I want to see an absolutely honest effort to expedite the problems down here because they are not getting better, they are getting worse.

Mr. KULIK. And I assure you you will have it.

Mr. MAVROULES. OK. Jim.

Mr. OLIN. Thank you, Mr. Chairman.

Mr. Kulik, Mr. Nash, I have said some pretty harsh things here today. I am going to try to avoid saying any more. I think I have been harsh enough.

This is a very, very serious thing we are dealing with. We have still got outstanding between us, my count says 1,365 loans, most of which have been approved. These involve something like 1,000 individual homeowners and something like 300 businesses. Those 1,000 individual homeowners represent 70 percent of the homeowners that were damaged enough to need loans after this flood.

In the case of the businesses, the 300 make up 90 percent of the businesses that were damaged clearly enough to need loan help.

At the rate the loans are being closed we will be a couple of years before those loans are finally settled. In that group of 1,000 individuals and 300 businesses there are individuals and businesses that are not going to last that long; they will not even be there in a year, 3 years. Maybe that one will not be there in a month.

There are some people in there, individuals, that could qualify for this individual and family grant. If the SBA would say, "Listen, we are never going to give you a loan," that would be the most generous thing you could do for people you are never going to give a loan to is to tell them that you are never going to give a loan, you know, as bad as that may be.

There may be 280, according to Mr. Slayton. I do not know.

I would like to have from you two gentlemen, if not today then within about a week, a plan that will facilitate the closing or otherwise disposing of these loans in a responsible, sensitive, proper kind of a way, with some kind of a time schedule as to what your targets are. Obviously, you do not know everything, all the problems you are going to get into. But we are pretty far along with these loans. They got to the point of being approved, you got the documents out, there has been a little give and take on most cases. This thing can be wrapped up sooner than it is going to be wrapped up if we did nothing.

I would like to make the request just as fervently as I can make one, in the interest of helping these disaster victims you two gentlemen come up with a plan and then carry it out. It will cost you less. There is not any question about that. If you do it sooner it will cost less for everybody. So you should do it.

Now, I do not know exactly what you should do. I think having a team of loan officers up here, and they should be elsewhere, because these loans are scattered over quite a lot of counties, the problems are different. So we have got to have people that can sit down and close the loan.

Now, the last 3 days over in the Poff Building you have made some headway. I do not know how many you closed. We made a check with some of the people that were there. The reaction was very good. Some said, "Yes, I think we have got everything settled, I expect now to get my loan." I do not know when they will get the money.

Others said, "No, the people that you sent up to work with us, the lawyer and the loan officer, did not have the authority or at least were not willing to take the authority of giving us a firm commitment, so the thing had to go back to Atlanta."

That is unfortunate. It would be better if you could send somebody up that could close the loan, that could go through the papers, get to the point where everybody signed off and say, you know, it is done. That kind of a process is what a bank would do. You have got people that know how to do that.

I would just plead with you to lay out a program of some nature of that kind to get these loans closed so people will know where they stand and we can get on. I think if we can accomplish that out of this meeting it will have been well worth having.

We are going to work on the future also, but these 1,365 loans need to get top priority as far as I am concerned.

I would appreciate anything you have to say about that.

Mr. KULIK. Mr. Olin, if we may, I would like to comment first, then Mr. Nash would like to comment.

First, let me just make a comment about the individual and family grant program and applications being made to that program. As the speaker mentioned, there is a procedure in the disaster application center where, if it becomes obvious that an SBA loan will not be made, a summary decline is issued and the person is immediately referred to the family grant program with a letter saying, "No, your SBA loan is declined." In fact, Mr. Olin, that was done in 1,814 cases.

Mr. Olin. Well, I expect it was. I am saying there might be 280 more.

Mr. Kulik. The only time, sir, the only time that a loan application is given to an individual is based on the information the individual has applied to the FEMA registrant at the front of the disaster application center which indicates there is a possibility of repayment.

The gentleman talked about at the end of March some 200 cases still outstanding. I am afraid I cannot understand that because at the end of March we had 73 home loans that were still in the pending stage for one reason or another, usually because there was some problem that we were following up on or some information that we had not yet received.

When we decline an application, part of that decline letter talks about the individual and family grant program and tells the recipient of the letter who to apply to, how to reply. A copy of that letter goes to the IFG Program.

Mr. Olin. Nobody questions that. I might suggest, Mr. Kulik, that one of the things you need to do soon is to have some knowledgeable people get on the phone and call the 1,365 people, find out what the status is.

Now, Mr. Nash said up here today that most people have not bothered to fill out the papers. That is not really the kind of answer you like to get. I do not quite believe it is true. We need to find out are they going to fill out the papers, have they abandoned the process and gone someplace else so the thing is not really active anymore, or just what is the problem.

You could even do that with a spot check to find out what the situation is you are dealing with. You may know that; I do not know.

Mr. Nash. We have in fact done that, Congressman.

Mr. Olin. And then when people say, "I am trying to fill out the papers. I need help," then somebody can go to help, maybe.

Mr. Nash. We have done that, sir.

Mr. Olin. You have done all that?

Mr. Nash. Yes, sir. As a matter of fact——

Mr. Olin. When are the loans going to be closed?

Mr. Nash. As a matter of fact, when the documents are mailed out to the applicant a copy of the list is mailed to the personnel we have here in Roanoke. And they call the people and ask them first if they have received them; second, do they understand; third, can we help you. We are here so many hours a day.

We also have a person doing what we call a circuit ride, that you mentioned, getting out into the other counties. That circuit ride schedule is published in the paper, as well as our hours here. We have done that in West Virginia, also, very extensively.

We did a telephone survey not too long ago to everyone in all the States that we are involved in regarding have you received your application—your loan closing documents? Yes; and so on. Eighty percent of the responses were, "I am not having any problem. I understand them. But I am just not ready yet," or "I have got something else pending," or "I may not do it. I have not made up my mind," this type of thing. In other words, it was a response for which we had no way of assisting them.

We do maintain a 1-800 number that they can call toll free and ask questions.

Unfortunately, as we have seen here today, things happen that are abominable, that we detest as much as anyone else. We try to make loans. And I try to be responsive to special problems, which is mostly what we are hearing, some type of special problems.

But you are exactly right. You put your finger on two areas that we have not been successful at. The first one is getting the applications completed and returned to us in a timely way. As you know, a large percentage of the applicant applications came in toward the end of the filing deadline, which does create a bulge in the pipeline and causes delays, causes problems.

Mr. OLIN. There were a lot of them late December, early January. Then there were about 30 percent which came after the deadline. I am aware of that.

Mr. NASH. Yes, sir; but which we fully understand because, I think you mentioned or it was brought out here, that these people have a great many other things on their minds, pressing problems that must be taken care of before they start tackling SBA and a loan application.

Mr. OLIN. Well, Mr. Nash, not to be antagonistic here at all, you sent me a list of 150 names about a week ago. And I called some of those and they came down for the session that we had the last 3 days.

Mr. NASH. Yes.

Mr. OLIN. I will try to call the rest of the 150 and see what I find out. I will let you know.

I mean, I do not know, you say you have made a survey, and I expect you have.

Mr. NASH. Well, they should have already been called, Congressman. If they have not been, I would really like to know that.

Mr. OLIN. Well, I will find out what happens on the 150 and I will let you know what I find out. And then maybe we can take the next step after that.

Mr. KULIK. Mr. Olin, if your survey of the 150 proves positive, then we will undertake to do a survey, another telephone survey of the balance.

Mr. OLIN. OK, I appreciate that.

Do you agree with coming up, do you have any ideas about what else you might do?

Mr. NASH. Yes, sir; I think we realize that the program is predicated too strongly on reliance on a fast return of the application when given out, No. 1, and, No. 2, on a quick return of the loan closing documents when mailed out. I think we recognize that there is going to have to be more resources committed in the way of loan closing offices perhaps, at the end of the cycle, and at the front of the cycle, more effort in the way of workshops, this type of thing, where possibly applicants can come in and get their applications complete and in the mail.

Mr. OLIN. I read your comment, and I think that is a good one. But how do you apply that, those ideas to this situation?

Mr. NASH. Well, of course, right now we are in the phase where we have all these documents out.

Mr. OLIN. Yes.

Mr. **Nash**. And right now we are restricted to doing actions as you have done, such as continue to call them, continue to ask if they have problems and see if there is any way we can help them, keep people up here.

Mr. **Olin**. I will be willing to bet you that if you tackle this thing area by area and call the people in an area and say, listen, I am going to have a loan officer and a lawyer up there next week, if I were to say: "If I do will you come down and close your papers with them?" I will be willing to bet you that you can get this thing closed pretty fast.

Mr. **Nash**. Right.

Mr. **Olin**. It is not going to be overnight. I realize that.

Mr. **Mavroules**. Will you do that?

Mr. **Olin**. You will not get 100 percent of them.

Mr. **Mavroules**. You will do that?

Mr. **Nash**. Yes, sir; we are doing that, in effect. We do not have a lawyer and we have the loan officer.

Mr. **Olin**. I would be willing to help you with that. I have got the staff. They have got other things to do, but this comes pretty high on the hit parade right now.

Mr. **Nash**. It is ours, too.

Mr. **Olin**. I will have the staff work on that with you.

Mr. **Kulik**. We will take the extra effort.

Mr. **Mavroules**. Thank you.

Mr. **Olin**. I appreciate it.

Mr. **Mavroules**. That is what we are looking for here today.

Mr. Staggers.

Mr. **Staggers**. Thank you, Mr. Chairman.

Mr. **Kulik**. May I make a comment on a longer term basis?

Mr. **Staggers**. Yes.

Mr. **Kulik**. If in fact this program continues, bearing in mind what the President's budget request contains, then we will be looking for perhaps even a more efficient contracting basis upon which to get loan closings done. That is something, as I said, we have in mind if the program continues. Obviously, at this point it would be too long term to make any——

Mr. **Mavroules**. I understand that.

Mr. **Kulik** [continuing]. Make any plans now.

Mr. **Mavroules**. We are doing our very best to make sure it continues. As you well know, the battle goes on every day.

Mr. **Kulik**. Please understand, sir, that as a member of the administration I did not intend that remark to be a plea for your efforts.

Mr. **Mavroules**. Well, I am not. We have to call it as it is, my friend. You know, the President wants to get rid of the total Small Business Administration, and transfer its duties to other offices. And you and I know if it is transferred it is not going to work. People will not receive the services. Yet we talk about the great genius of SBA and the small businessmen of this country, and what do we do, we drive another nail into them. You know that as well as I do.

Let us put our partisan politics aside; I am saying the truth, and you know it.

Harley.

Mr. **Staggers**. Thank you, Mr. Chairman.

I have to agree with the other two gentlemen, we can do something in the future and we will be looking to the future. We can dwell in the past, which I do want to make some comments on. But I agree with my friend from Virginia here, Mr. Olin, that right now with this emergency let us get on with it.

With the past, you say there is no conspiracy. You have heard the testimony about all the misinformation that was being disseminated. And let me ask two questions and then maybe an observation.

You mentioned there was doubling of the people that were hired and then a redoubling. I think I remember that in your original statement.

Mr. **Kulik**. Yes.

Mr. **Staggers**. How were these people chosen? Were there any qualifications? Did you pull people off the street? It sounds like some of the people that were responding to the constituents and citizens had no idea what they were doing.

Mr. **Kulik**. No, sir; Mr. Staggers, we did not. I will permit Mr. Nash to answer the question becuase it was his office that actually did it.

But first, sir, I must make a comment on the question of misinformation. There is a good deal of misinformation that goes out at the beginning of a disaster. I agree with you completely. Not only this one but practically every disaster I have been involved in. I must also say, sir, that a good deal of this misinformation does not come from SBA employees.

Unfortunately, there are a lot of people who, when asked questions, have no hesitation to answer, whether they know the facts or not. And many times answers are given by people who——

Mr. **Staggers**. Are you talking about Government officials, people with FEMA, whatever?

Mr. **Kulik**. I am talking about the entire range, sir, people with FEMA, local officials, anybody.

Mr. **Staggers**. Should FEMA have more authority in your opinion?

Mr. **Kulik**. In what way?

Mr. **Staggers**. Of making sure that there is one unified voice.

Mr. **Kulik**. FEMA tries to make sure there is one unified voice now. That is part of their coordination effort.

Mr. **Staggers**. But the gentleman told us earlier that he has no authority.

Mr. **Kulik**. He has no authority to order loans made. That is what he was referring to. But, for example, in a given disaster situation we have no authority to issue press releases. It all must be coordinated with FEMA, with the disaster field office and the Federal coordinating officer.

There are many people who speak not out of any mean streak, but give this information.

Mr. **Staggers**. These many people you are talking about, I am referring to the people who have called up and were on the telephone with someone or went into a DAC center and got information from someone who is supposed to be representing the Federal Government. Are these the type of people?

Mr. **Kulik**. People at the DAC center, at the time this disaster happened those who came to the DAC center for home loans—businessmen were different—but those who came to the DAC center for home loans for the most part did not see SBA personnel. They do now. We have changed that. But for the most part they saw only FEMA personnel. The businessmen did see SBA personnel.

Now, to get back to your question how these people are employed, I will let Mr. Nash answer that.

Mr. **Nash**. Well, Mr. Staggers, you have hit on a very severe problem that we do have, in the sense that the people that we hire are all temporaries.

Mr. **Staggers**. Right.

Mr. **Nash**. And our staff did go from 100 to approximately 400. They were hired primarily in the Atlanta metropolitan area. We have a pretty good market for financial types—a lot of young people in their graduate courses in college in finance and economics and this type of thing. We lean, of course, towards those with the financial background or training.

The training we give them is about 2 weeks under our program. This in itself will tell you that they are not going to always give the right answer out. And they are not going to always have sense enough to turn to someone who can give the right answer. It is a continuous problem.

And as soon as the activity is gone, of course, the temps have to be let go.

Mr. **Staggers**. What about these people, what about these inspectors that came and sat at the kitchen table? Are they paid by inspection or are they paid a salary or are they paid——

Mr. **Nash**. No, sir; they are paid a salary. The construction analysts or loss verifiers. Again, we have a cadre of loss verifiers, approximately 10, that are on our staff year-round but are subject to furlough if activity drops off. And we had at one time 100 loss verifiers working the two States. So you can see we had 90 new people.

Now, they are hired based on some construction background. They are either contractors or working in that type of construction business, so that they have the basics. And then we have to go ahead, of course, and train them in our program.

Mr. **Kulik**. Mr. Staggers, I am told that there are some verifiers or construction analysts or similar type people in other agencies or hired by private insurance firms who are paid by the job, that is, by the specific verification. I am even told, although I cannot vouch for the accuracy, that some were paid a percentage of the amount of damage they verify, which does not seem to me to be a very proper way of operating.

Mr. **Olin**. Will the gentleman yield to me for a question along these lines?

Mr. **Staggers**. Yes.

Mr. **Olin**. One of the questions that came up was the allocation of loan money to different parts of the repair, such as the driveway, and the patio, and so on.

Mr. **Kulik**. Yes, sir; the use of proceeds.

Mr. **Olin**. And these temporary new people made the judgments. What is your attitude toward a homeowner who comes back and a businessman who comes back and says, "Listen, I do not like the way you have allocated my money, it is not the best way. I suggest—I request that you allow me to allocate the money differently," and they tell you how? Are you receptive to that kind of a request? And what do you do with it?

Mr. KULIK. We are very receptive to that kind of request, sir. For example, the instructions that our verifiers operate under are that when they have finished the verification, when they have, sometimes off-site, totaled up what it is they have seen, if their estimate of damage is substantially different from that which the applicant has supplied they are supposed to contact the applicant and discuss the differences and the areas of differences.

Mr. OLIN. Well, we know of two cases where that did not occur.

Mr. KULIK. Mr. Olin, we will check those cases, believe me.

Mr. OLIN. Then when the homeowner comes back——

Mr. KULIK. If he comes back——

Mr. OLIN [continuing]. Will you negotiate that point?

Mr. KULIK. Yes; we will. If he tells us, for example, that he has a contract with a contractor to repair whatever the item is and it will cost more than our verifier has permitted, we have no problem in increasing that amount. However, however, I must say that we are limited to repairing or replacing the damaged property. We cannot permit upgrading. We cannot permit any extensions. We cannot permit, for example, an individual to say, "Instead of replacing my personal property, can I take the personal property losses and put them all into adding another room onto the house while I am repairing the house?" That we cannot permit.

Mr. MAVROULES. Well, I do not think anyone has indicated they would do that.

Mr. OLIN. I do not think that is what is being requested in the case of business where they were trying to get allocation of money to repairs that were made with their own personnel.

Mr. KULIK. Yes, sir.

Mr. OLIN. That was initially denied. And then in one case later accepted. Are you flexible on that kind of a reallocation of funds?

Mr. KULIK. We are flexible, Mr. Olin. And let me say that the initial decline of an amount for direct labor, direct materials, to repair the damage by a business was improper.

Mr. OLIN. The denial was improper? Improper?

Mr. KULIK. Yes, sir; if in fact that was the case and it was so known by our employees, it was improper. It was a mistake.

Mr. NASH. In other words, that is an eligible request.

Mr. OLIN. We have got a case in point that you are going to have a reapplication here very shortly.

Mr. KULIK. We certainly will review it.

Mr. OLIN. That is the man who needs the money in 30 days.

Mr. KULIK. We certainly will review it, Mr. Olin.

Mr. NASH. The caveat to that, Mr. Olin, is that we will not allow a person to pay himself. In other words, if you have damage to your home you cannot pay yourself to do the repairs and make that part of your loan eligibility. But in a business where it is a business expense, it is his own labor, he is paying that labor, as the gentleman said, they would be doing other things, they are on his payroll, and he applies, then he is eligible.

Mr. **Olin**. If the business is shut down, in the case of the gentleman who is in the lawn or home maintenance business, his business was shut down. The employees were put to work on repairing the machinery.

Mr. **Nash**. Yes, sir; that is eligible. And we were wrong.

Mr. **Olin**. I expect he worked on that, too.

Mr. **Nash**. If the circumstances were presented to us as they were here today, we were wrong.

Mr. **Olin**. OK.

Mr. **Kulik**. Mr. Olin, we will review the case.

Mr. **Olin**. Yes; I would hope that you would be flexible enough to.

Mr. **Mavroules**. I want you to review the case also of the gentleman who is ready to lose his home. That is a very serious matter.

Mr. **Kulik**. We will review every case mentioned here today.

Mr. **Mavroules**. Thank you.

Mr. **Olin**. I did not mean to take all your time, Mr. Staggers. Go ahead.

Mr. **Staggers**. Oh, no, that is OK.

Mr. **Olin**. I have one more I want to ask about. I wanted to ask, I promised to ask you several questions before we were done. And I probably will not get them all asked. But I want to do this one more.

Many people complained about the fact that their loans were approved and they were given a commitment and then, after that fact, new terms showed up, they had new terms—liens, different security, more insurance, flood insurance, hazard insurance. And this, in some cases, was a long string of additions. Why, why do you allow that to occur? Is that your policy? Or what is your intention with regard to giving information to the applicants with regard to the term of the probable loan? What is your intention?

Mr. **Nash**. Well, sir, the loan agreement sets out the terms, conditions, and collateral of the loan. If there is no problem with that on the part of the applicant, if he accepts that as what he understands that he has talked to the loan officer about, and this is agreeable, we would not, then if someone came along and said, well, wait a minute, we need something else here, he would be well within his rights to say, I have a loan agreement, I have signed it, and SBA is committed to make me a loan under these terms.

Mr. **Olin**. Now, at the time, at the time you approve the loan have you sent out the loan application terms?

Mr. **Nash**. Yes; well, sir, we send out the——

Mr. **Olin**. Or does that come right after that?

Mr. **Nash**. We send out the approval letter and then the loan authorization or loan agreement.

Mr. **Olin**. The individual gets an approval, has an approved loan, then, then the loan acceptance paper goes out. So he does not find out about the terms at all——

Mr. **Nash**. Well, yes, sir.

Mr. **Olin** [continuing]. Except what has been told him.

Mr. **Nash**. Yes, sir.

Mr. **Olin**. Do you tell him about the terms ahead of time?

Mr. **Nash**. Yes; he and the loan officer in most cases always discuss the terms. I think where we have a problem is is that the loan officer does not have authority to——

Mr. **Olin**. He does not talk to the loan officer unless he calls him up on the phone. That is the problem.

Mr. **Nash**. Well, the loan officer should call him on the phone. Our instructions to the loan officers are to discuss terms with the applicant, proposed terms.

Mr. **Olin**. You intend to discuss the terms with the applicant prior to the time you say the loan is approved? Is that the case?

Mr. **Nash**. Yes, sir.

Mr. **Olin**. I do not think you do it very often.

Mr. **Kulik**. May I make a comment, please?

Mr. **Olin**. Excuse me, Mr. Kulik. Yes.

Mr. **Kulik**. I think I can explain some of the confusion that has been evidenced today.

First of all, as an agency, we have a rule or two: No one individual can approve a loan. No one individual can decline the loan. There have to be two people who agree, the loan officer and usually the supervisory or the review loan officer who agree that the loan will be either approved or declined.

When the loan officer works on the loan it is his function, part of his function, if he is going to approve the loan to call the applicant and discuss possible terms. He is not and cannot, in fact, tell the applicant the loan will be approved, because it still has to go through another step. And there may be a disagreement in the next step.

You heard a number of people say here today, for example, they were told that a loan was approved and then they received a letter of decline.

Mr. **Mavroules**. That is right.

Mr. **Kulik**. What they were talking about was the phone call from the loan officer to discuss possible loan terms. The loan officer is told specifically, you are not to commit, you are not to make any statements that this loan will be made. As a matter of fact, you are to caution the individual that you are just discussing possible loan terms.

At one point because of these problems, Mr. Olin, we had prepared a statement that we were going to have every loan officer read in exact two sentences. And we decided that was ridiculous.

But the point is, we do not commit, but we do discuss possible loan terms.

Mr. **Olin**. Well, that is quite—I am suggesting you do that. Nothing wrong with that at all.

Mr. **Kulik**. Now, if the loan is approved, we send out the loan agreement.

Mr. **Olin**. The agreement ought to be in agreement with what has been discussed with the person.

Mr. **Kulik**. It is.

Mr. **Olin**. So it is not a surprise.

Mr. **Kulik**. But it does not, Mr. Olin, it cannot, the loan officer cannot discuss every single possible term in the loan agreement. He is talking about general outlines. Would you be—let me put it this way.

Mr. OLIN. I am not sure that we are going to be in agreement on this one.

Mr. KULIK. What he is talking about is the consideration of a loan possibly of x dollars which would involve security of the following. We are talking about security being in a home loan usually second mortgage on a home, et cetera. He does mention that to the applicant, or he should.

Mr. OLIN. Well, I tell you, we might try this out. You have got something like 130 more loans that have not been, not been approved yet. I will challenge you on every one of those to reach agreement with the applicant with regard to the terms sufficiently before your approval so you will not have to add anything more to those 130 situations after you approve it. Will you try to do that?

Mr. KULIK. Sure we will. Mr. Olin, what we do——

Mr. OLIN. Thank you.

Mr. KULIK [continuing]. As I said, after we discuss it, and take the next step, let us assume that it is an approved loan, at that point we send out the loan agreement which contains all the terms. If the applicant leaves the loan agreement, nothing that comes in the loan closing documents package should be a surprise.

Mr. OLIN. All right. That is the way it should be.

What I have heard, you have not been achieving that very often.

Mr. KULIK. That is the reason why I say we would like to review these cases.

Mr. OLIN. So go to work on it, see if you cannot achieve that in these next 130 situations. And we will give you a lot of credit if you do.

Mr. KULIK. Mr. Olin, that is why I said we want a chance to review these cases.

Mr. OLIN. You have plenty of chance. I will be right on your tail till they are all done.

That is all I have to say.

Mr. MAVROULES. OK, Jim, thank you.

Thank you very much, gentlemen.

I now declare the hearing adjourned.

[Whereupon, at 1:13 p.m., the subcommittee adjourned to reconvene subject to call of the Chair.]

SMALL BUSINESS ADMINISTRATION DISASTER LOAN ASSISTANCE

FRIDAY, APRIL 11, 1986

House of Representatives,
Subcommittee on General Oversight
and the Economy,
Committee on Small Business,
Lewisburg, WV

The subcommittee met, pursuant to notice, at 3:05 p.m., in the Circuit Courtroom, Greenbrier County Courthouse, 200 North Court Street, Lewisburg, WV, Hon. Nicholas Mavroules (chairman of the subcommittee) presiding.

Mr. Mavroules. Good afternoon, everyone. My name is Nick Mavroules. I am the chairman of the Small Business Oversight subcommittee. The hearing will now come to order.

Please forgive me and your Congressman, my friend Harley Staggers, for being so late, but we were tied up in Salem, VA, and we had quite a ride coming over here over those mountains in a small airplane. It got a little bumpy, but we enjoyed it.

I am delighted to be with you this afternoon along with my colleague, who asked that we meet in his district. Obviously, you have some problems. We want to hear about your problems. So that the officials from the SBA would not leave us we brought them with us on the airplane. They are with us and they will be testifying later on.

Harley, thank you for the invitation.

OPENING STATEMENT OF CHAIRMAN MAVROULES

Mr. Mavroules. This morning in Salem, VA, we began our review of the Small Business Administration's Disaster Loan Assistance Program.

Since its inception in 1953, SBA has been the principal Federal agency providing long-term financial assistance to victims of natural and economic disasters. In West Virginia, during this time, SBA approved over 8,000 loans for more than $80 million to homeowners, businesses, and others who have suffered from the devastating effects of floods, hurricanes, fires, and other disasters.

The SBA Disaster Loan Program is intended to provide homeowners and businesses the opportunity to get back into the productive mainstream, to occupy their homes and reopen their businesses. Also, the program assists the community as a whole by providing for the restoration of jobs, services, business revenues, and taxes.

Unfortunately, in 1981 a number of changes were enacted which severely restricted the program, such as higher interest rates and unrealistic maximum limits on loans to homeowners.

Furthermore, we are now faced with the possible elimination of the SBA. The proposed elimination of the SBA would not only curtail most of SBA's regular programs to our American small businessmen and women, but it would affect the Disaster Loan Progam itself. Some functions of the SBA are expected to be moved to the Department of Commerce, but not the Disaster Loan Program. It is slated for total elimination if the SBA is dismantled. I am afraid that no other agency could handle the program. Whatever its faults, we would be in worse shape without the SBA's Disaster Loan Program.

In Salem, we heard from homeowners and businesses about their experience with Federal assistance efforts since the floods of last November. Now we will hear from disaster victims in West Virginia.

SBA is here to provide us with a better understanding of the program and can help facilitate possible solutions to the problems that you all have encountered. Furthermore, we on the committee want to help you in any way possible. One of our main goals is to ensure a strong and effective Disaster Loan Program.

Before I proceed with the witnesses I want to turn the microphone over to your Congressman and my friend Mr. Staggers.

OPENING STATEMENT OF HON. HARLEY O. STAGGERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WEST VIRGINIA

Mr. STAGGERS. Thank you, Mr. Chairman.

Because we are running a little late I am going to briefly characterize what I have to say. I do have a prepared statement which is part of the record.

I have to compliment my colleague from Massachusetts; he did better on the flight over across the mountains than I did. He handled it very well. And I do appreciate him being here, and not only for coming but for lending his expertise as we try to go through this difficult period.

And truly, the crisis is not over yet. The fact that we do have a lot of problems that are caused by the flood of November shows that the crisis, the needs of the crisis still need to be met.

Let me summarize in a sense that probably the biggest complaints that we have had, at least that have been communicated to me, are some of the delays on the loans, the mistakes, the misinformation, and the unnecessary redtape. And I think what we are going to try to do here today is make sure that the laws are followed. And that is why the SBA officials are here.

They have heard a lot over in Virginia. And they have indicated that there will be some cooperation. But also, I think that we are looking at possible changes that will be needed legislatively. We got some good suggestions over in Virginia. I look forward to the testimony here today.

We also heard over there—and I will not reiterate it—but the fear that there may be an underlying type of reasoning behind some of the delays, and that was answered by the SBA officials that in fact they are not here to undermine the SBA, even though the administration would like to do away with SBA, that they are professionals, they have assured us of that, and they are going to work with us. So I think that already a lot has been accomplished in the hearing over in Virginia. And I look forward to the constituents from my district that have traveled a long way. I thank you for being here.

I thank the chairman once again for taking the time, lending his expertise. I thank the SBA for participating in this hearing and listening to the complaints. And, hopefully, we can get this thing resolved.

Mr. MAVROULES. Thank you very much, Harley.

I am going to ask all who will be testifying this afternoon to please condense your statements. We will take your entire statement, however, and put it in the record.

Also, the record will remain open, even after we leave here this afternoon, so that if you want to put any questions or statements before our committee, I invite you to do so.

Our first panel this afternoon is Ron Castle, Dorsey's T.V. Sales, Leisure Time Video, from Parsons, WV; Fred Burns, Jr., Burns Motor Freight, Marlinton, WV; and we do have another panelist, but he is not here, so if Walter Burke should arrive, please notify me and we will put him on the panel.

Well, number one on the list is Mr. Castle. Why do you not begin your testimony, Mr. Castle.

TESTIMONY OF RON CASTLE, DORSEY'S T.V. SALES, LEISURE TIME VIDEO, PARSONS, WV

Mr. CASTLE. First of all, I greatly appreciate the opportunity to testify.

And as sort of an overview of our area, after more than 5 months since the flood a very limited number of the retail businesses have opened in the Parsons downtown area. They have not, none of those businesses that have reopened have opened because of disaster assistance but rather in spite of it, in spite of the lack of it. This leaves little doubt in our community's mind that the SBA Disaster Assistance Program has serious problems.

Prior to the November 4–5, 1985 flood, we had enjoyed the best two business quarters of our nearly 5-year history. We were in the midst of enjoying a nearly 30-percent growth in business from 1984 to 1985.

And then at this time I would like to address each of the issues cited in the loan denial that I received in the latter part of February, first part of March. And the first thing cited was lack of ability to repay.

My response is, how can SBA make a statement like that? They never even conducted a routine credit check with the local bank at which I do all my business transactions. Further, my wife and I have been in business for nearly 5 years. We survived an economic depression during our first couple years in business. In October of 1982, I was involved in an automobile accident and received a broken back. I was in a full body brace from the waist up for 6 months, and under a doctor's care for 2 years. My wife ran the business virtually by herself for nearly a year after the accident.

We purchased the building we were renting in March of 1983. During all this time, including the flood November 4-5, 1985, to present, we have never missed an installment loan payment. We remain current to this very moment on all installment loan payments. I therefore strongly resent the implications that I am unable to repay a loan.

The second reason: Gross disproportion between investment and loan.

The original purchase price of our business and the appraised value of the contents in June of 1981 was $1,500. The SBA verified amount after the flood was over $62,000 for the contents. This amount I understand does not include anything for building damage.

The total business indebtedness, building and contents, at the time of the flood was $38,000. Allowing $62,000 for contents, $8,419 for building repairs to date, and additional repairs that are required, plus restocking for merchandise, a loan of $107,000 is not out of line.

We worked all this past year on our building and this past winter, with only a 20,000 Btu kerosene heater, lack of repair parts, equipment, shelving, and used a restroom that is badly in need of repair.

The third reason: Lack of collateral.

I am fully aware that collateral is lacking. After all, I had $62,000 worth go down the river. Every businessperson in Parsons was told repeatedly during public meetings with SBA officials that the lack of collateral would not be a reason for denial. This is the very purpose of the disaster program.

To make matters even worse in my case, as a part of the settlement I got what was called a structured settlement from the auto accident I was involved in, and have a $96,000 annuity account, and I offered that as collateral. That makes the lack of collateral reason totally out of line as far as I am concerned.

I also feel that since we have a perfect payment record that this should not even be required.

During public meetings everyone was told that SBA disaster loans could be used to pay off existing loans for lost merchandise and property. I, therefore, offer a very easy solution to my problem. My debt before the flood was $38,000 at 12 percent, leaving me a monthly payment of $573. My debt since the flood is $46,200. I borrowed the $8,200 to repair my building and get moved back in. The bank gave that to me at 10 percent. My monthly payment is now $597. With an SBA loan of even $70,000—$62,000 to replace the merchandise I have lost and $8,000 to repair the building—at 4 percent, my monthly payment would be $517 for 15 years.

With the $70,000 I would pay off the $46,200, giving SBA a clear title to all property and merchandise. This would leave me $23,800 to complete building repairs, replace repair parts and equipment, and purchase additional merchandise for resale. This would not put me back in my original condition before the flood, but I will accept anything along those lines. And this I would hope disaster assistance is all about.

Mr. **Mavroules**. Thank you very much, Mr. Castle.

Now we are going now to hear from Mr. Burns. And then perhaps Harley and I might have a couple of questions for you.

The SBA officials, by the way, will be the last panelists. I did that purposely so that we can ask them some questions and see what we are going to do together to help people like yourself out.

OK, Mr. Burns.

TESTIMONY OF FRED BURNS, JR., BURNS MOTOR FREIGHT, MARLINTON, WV

Mr. **Burns**. My name is Fred Burns, Jr. I am president of Burns Motor Freight and part owner of two small retail stores.

On November 4, 1985, 62 business establishments and over 300 homes in the town of Marlinton were devastated by a flood. As fire chief of the town of Marlinton, I was the officer in charge of disaster operations and observed firsthand the destruction this community suffered.

The flood of November 1985, not only affected my hometown but much of West Virginia and Virginia. Newspapers, TV, and radio focused for a brief period on the fatalities and monetary loss estimated at millions of dollars. Then the media moved on to newer items.

What has been largely overlooked, however, is the long-term impact on the people hit by the November 1985 flood. This statement focuses on that impact and, more specifically, the impact on my company. What follows is very subjective and in some places intensely personal. It is offered to you for two purposes: First, to serve as a sharing experience to those who have applied to the SBA for disaster loans; and second, to help in some small way those who may face a future disaster.

Burns Motor Freight, Inc., has 80 employees. And 17 of these employees suffered personal losses during the November 1985 flood. Most of these employees started SBA applications but have become totally frustrated, and have given up, and are no longer trying for SBA loans.

The problems and emotions that have resulted throughout our community are beyond my capacity as a layman to comprehend. I have seen people who could not deal with their own fear of failure, but continued to work to the point of emotional breakdown. It is both sad and frustrating to witness someone you know and respect suffering his own private hell while you are powerless to help.

Burns Motor Freight, Inc., has been in business for 37 years and has survived deregulation but now finds it hard to face the second disaster of the 1980's. My company suffered a $2.3 million loss in November, and has no choice but to pursue an SBA disaster loan. Our loan application was for less than half of our loss.

Shortly after the November flood I picked up our SBA forms at the disaster assistance center and began the task of completing them. Little did I know that this was going to become a greater disaster than the flood of 1985.

By December 6, 1985, our application was completed and I hand carried it to the Clarksburg, WV, SBA field office for review. At this review I was told that the application was complete and that a loss evaluator would be sent to verify our loss.

On December 16, 1985, SBA requested additional information which we immediately sent to them. On December 20, 1985, the loss evaluator arrived and confirmed our loss. In fact, he evaluated the loss higher than we had.

At this time we were advised that our application would be forwarded to Atlanta for further processing.

By early February our community was becoming very frustrated with the lack of response from SBA. Our local chamber of commerce arranged a meeting with Senator Robert Byrd and SBA representatives for February 13, 1986. I attended that meeting as part of the delegation sent to Washington. At this meeting some of us were advised that our applications had been approved or would be in the near future.

On February 21, 1986, I was advised that our application had been approved and closing documents would be sent to us shortly. On March 3, 1986, we received our closing documents and I immediately started processing them.

On March 31, 1986, I returned our closing documents to Atlanta. The closing documents amounted to 723 pages and weighed 7.35 pounds. Including our application, I have now sent SBA 1,330 pages of documentation, weighing over 12 pounds.

To save time, I am not including information regarding my store business, except to say that I have sent another 800 pages of documentation not included here to SBA for that loan.

The severity of the problem. It is now 5 months since the disaster and people are asking how much longer can we hang on? At least nine business flood victims have not reopened in the town of Marlinton. And many may never reopen because of delays from SBA.

Some of those that have reopened are getting weaker every day because of the delay and redtape. If you were very sick and a doctor told you to wait 6 months for treatment, I would assume that you would get better or die.

Time does not permit me to elaborate on all of the SBA requirements which upset people with the SBA disaster program. I have attached to my statement copies of the SBA loan application, loan authorization agreement, borrow disbursement fact sheet, loan closing disbursement procedures. I would hope that you will take time to read these so that you will more fully understand our problems.

After a disaster, people are not physically, mentally, or financially capable of facing the hassle of SBA to get help. It must be understood that this is not a handout, but a loan program that we are expected to repay.

A few possible solutions. A simpler application form. Many of us are not capable of going through all the redtape that is required to fill out these applications. A loss evaluator should be sent to each location to verify the loss, as is now done. Set up local field offices with SBA personnel and local bankers to review applications—people who know these applicants.

Put people in the offices that can make decisions. Make collateral requirements reasonable. When you go to the bank to borrow money for a new home, a bank loans you $50,000, they take a deed of trust on that home. That is their collateral. They do not ask you to put up your second home or everything else that you own.

Eliminate the title insurance requirement. Here again they do not trust the attorney's fixing up the deeds of trust, so they require him to insure it. This is unnecessary expense for the applicant.

If the loan is made on good, sound business practices, then issue a check and let the people get on with their business. If the loan cannot be made, let the people know. Do not drag them on for months and then drop them.

Eliminate the requirement to send copies of invoices and checks to SBA. What would happen if we were all required to send all of our checks and all of our receipts to the Internal Revenue? Our income tax returns would look like that every year.

Retain the inspection verification program now in use. This is good.

Make the inspection program reasonable, but set penalties for those who misuse loan funds.

Set up regional offices within a reasonable distance of the disaster area. At these offices establish arbitration procedures so that when the local officials cannot agree on loss or anything else, then they can go to arbitration and solve the problem.

Work out a local bank participation program. This would work if you would get all the banks in the United States to participate; set the program up before a disaster happens so you can help people immediately after a disaster, not 6 months after.

SBA should get away from the attitude that people should not recover any better than they were before the disaster.

[Applause.]

Mr. BURNS. I agree that no one should profit from a disaster, but they should be allowed to recover as strongly as possible.

In closing, I would like to say that 5 months after the November 1985 disaster I still do not know one person or one business that has received a loan check from SBA. There are those in SBA that will say that they are loaning taxpayers' money and they must be very careful. To those I say, you should be working for the U.S. Air Force, which spent over $1 billion of taxpayers' money in December 1985, with very little safeguards, just because the money was there. Or they should go to work for our State Department that let a crooked dictator come into our country and spend $39,000 of taxpayers' money for necessities.

It appears to me that SBA likes to come in after a disaster and say: "You should not have survived this disaster. You should have been a casualty. We are now going to help you by giving you more paperwork than you can ever possibly complete. And if you do get the paperwork done, then we are going to delay you as long as possible. By this time, if you are not defeated, we are going to make you a loan, knowing very well that you are now too weak to survive, then we can sell you out as a failure."

The people of West Virginia appreciate this opportunity to share with Members of Congress the distressing developments we are experiencing with SBA. We are not asking for a handout, but merely the opportunity to once again become taxpaying citizens of this great country.

Mr. MAVROULES. Thank you very much, Mr. Burns. As a matter of fact, if we eliminate one MX missile we could take care of all the loans that have been requested, all 8,000 of them. So I sympathize with much of what you are saying.

Let me ask just a couple of questions here. And this had arisen in Salem, VA.

Were the people you dealt with discourteous? Were they courteous to you? I am not talking about the people over here today, because obviously you were not talking with them. But the people in the SBA office, did they show you any consideration at all? Either one of you.

Mr. BURNS. I would say they showed consideration. But I met several people in the SBA that really did not know what they were talking about.

Mr. MAVROULES. All right.

Mr. BURNS. There was a lot of contradicting statements. One person will tell you you can do this and the next person says, no, you cannot do this.

And, of course, there is a copy of the instructions attached to my statement. And you read that, then that is fact, you go by that.

Mr. MAVROULES. Yes; we intend to do that, too.

Would you care to comment on this?

Mr. CASTLE. Gladly. My case has been, with a very few exceptions, everyone that I dealt with in SBA were either rude, arrogant, inconsiderate, inconsistent in what they told me. And we can go downhill from there.

Mr. MAVROULES. OK.

Mr. CASTLE. That is straight across the board.

Mr. BURNS. I might add that they sent two representatives to Marlinton to help people with their problems, and those two gentlemen were very nice and very helpful.

Mr. MAVROULES. OK.

Mr. BURNS. They set up an office in Marlinton 2 days a week and answered questions and helped people fill out their applications. And they were very, very nice. I cannot say anything bad about them.

Mr. MAVROULES. Good.

What is the status now of your situation?

Mr. BURNS. I have no idea.

Mr. MAVROULES. No idea at this point?

And your situation? You have been denied or are still in abeyance?

Have you appealed it?

Mr. CASTLE. Yes; I have.

Mr. MAVROULES. OK.

Mr. BURNS. Our application has been approved.

Mr. MAVROULES. OK.

Mr. BURNS. But this is what is frustrating to me is this stack of papers.

Mr. MAVROULES. I understand that. And I am hoping that later on in the hearing that our two administrators can talk about your problems. OK?

Mr. BURNS. Fine.

Mr. MAVROULES. Mr. Staggers.

Mr. STAGGERS. Mr. Burns, you mentioned the two people from SBA. Was that immediately or was that just recently?

Mr. **Burns**. No; that was after we attended the meeting in February with Senator Byrd. And he requested that SBA send some field persons out to help our people with some of their problems.

Mr. **Staggers**. Well, in Salem there were some comments that some of the misinformation was not really from SBA officials. Both of you all mentioned that you met with other individuals throughout and that you were told different things. For instance, Ron, you mentioned about the public meetings.

Mr. **Castle**. Yes; that was in the courthouse in Parsons.

Mr. **Staggers**. But that was an SBA official?

Mr. **Castle**. Yes, sir.

Mr. **Staggers**. And it was SBA? Both of you are sure that they were SBA officials that were talking?

Mr. **Castle**. As sure as I can be.

Mr. **Staggers**. OK. And maybe after this is over we can get some names of some of the people that actually dealt with it.

Also, I have heard rumors of threats, particularly like, you know, coming down on this meeting, that type of stuff.

Mr. **Castle**. Absolutely. I had talked to Lisa Swartz in your office on several occasions, to Randy a couple of times. And I could not get any information back about the status. And finally she got some information and gave me the $62,000 number for contents.

All right. I then, sometime last Wednesday as a matter of fact, received a phone call from an SBA official in Atlanta. We talked for at least a half hour. And several things came up during those discussions. A couple of comments that were made that I take a great deal of offense to. One was that a lot of small businesses or a lot of people in small business use that as a way to avoid paying taxes.

Later on in the conversation, well, it ended shortly after he made this comment, and that was, "Do you have any idea what you are letting yourself in for if you go to that hearing?" And at that point he could not have kept me out of here with a gun.

Mr. **Mavroules**. Do you have the name of that person?

Mr. **Castle**. Congressman Staggers' office has it. I do not want to say it in public. But they have it. Randy has it.

Mr. **Mavroules**. OK.

Mr. **Burns**. I have not been threatened. I have gotten along very well with the people. I would say I have no qualms with the people I have dealt with other than delays.

Mr. **Mavroules**. Your problem is with the process, the delay and that kind of thing?

Mr. **Burns**. Yes; I have creditors that I have been telling now for months that we are going to pay you next month. And they feel sorry for you immediately after a disaster. But after 6 months they get a little discouraged of hearing that same old thing.

Mr. **Staggers**. I think what you have at your right elbow there demonstrates another real problem with the redtape.

It was mentioned at the Salem meeting—and I think you touched on some of this—that if in fact we did have a loan officer and a lawyer and a regional type setting, for instance, if we had a loan officer and a lawyer here would you be willing to make the trip, both of you, down here to make sure that could get a closing?

Mr. **Burns**. Of course. I would be tickled to death.

Mr. Castle. I'll go anywhere.

Mr. Burns. Anything that saves some time. I have not been productive for my company for 5 months because I have worked for SBA for 5 months.

Mr. Staggers. Now, did both of you all fill out your forms right away?

Mr. Castle. Yes.

Mr. Staggers. Were there any real delays in filling out forms?

Mr. Burns. I hand carried mine to Clarksburg on December 6. And the flood happened on November 4 and 5. So I thought I did pretty well.

Mr. Staggers. Is there any duplication that you had to fill out forms over and over again in that stack or is that just——

Mr. Burns. That is it. That is the originals of everything.

Mr. Staggers. But what I am saying is did you send it in and they told you here you had to——

Mr. Burns. One time I was requested some additional tax returns and things of this nature, which I sent in a week later.

Mr. Staggers. I have to agree with both of you gentlemen when you talk about, well, Ron, you were talking about not even really getting back to the way you were before——

Mr. Castle. Right.

Mr. Staggers [continuing]. But just being able to get a chance.

Mr. Castle. I am willing to go. Well, OK, in my case originally, my building is No. 35, and it was marked for demolition when I filled out the application. OK? I then checked with the State fire marshal's office. I got my building repaired and got it to the point where I could move back in it for $8,400. But the loan application and everything was long gone before that.

I went to the local bank. I got a contractor to give me an estimate of $8,200. I went to the local bank and got that. Well, I actually got that on the street corner two weeks after the flood and we filled out the paperwork later. And they went on and started work.

I moved back into my building on December 24.

As far as filling out the applications, as far as I know, in the town of Parsons I was the first business verified. So we got them in early on.

A couple of other things. I have got documents here from lots of other people, a couple of other organizations. One is the same bank that gave me the loan. And you can get numbers and figures from that. But what has happened to them, this fellow that signed this, the president of the bank, they are ultraconservative people, and he says it very mildly, but what has happened to them, they put out over a half a million dollars, almost $600,000 in interim loans to 18 people, they say, and with the idea or the assurance from the DAC center people that the SBA loans would be forthcoming. Since that time six of those loans have been denied. Now, they do not know what they are going to do. And they are out here on this limb with $600,000, and SBA is sawing it off.

The assurances they got publicly just is not happening.

I have another document from the director of the community development organization that we formed, Dr. Goldman. OK. And his statement is here. And he did a little survey of 15 businesses in the downtown Parsons area, the two-block area that was virtually washed off the face of the Earth. Say, 15 businesses that applied for loans, 11 have been denied, he says, four, to my knowledge, have been approved but none of those four has received one red cent, not a nickel.

I think there are five businesses rebuilt in that block now. I am one of them.

And we can go on. I have several other things.

I do get, some other things that I have run across, I sell and service TV's and appliances. Obviously, there was a lot of that stuff lost during the flood. I got back in business in time, very quickly. And the first 3 months of this year, because of the type business I do, I would pray for business to stay like this, you know, if this was not the reason. I had the biggest quarter—I had a bigger quarter than I had my whole first year 4 years ago.

And I get into a lot of people's homes. I have got an 81-year-old. All of these, several of these people that I am going to talk about are scared. They have been dejected. If the fellow would say that to me, I mean, I am a 39-year-old Vietnam veteran, I spent a year in the infantry over there, and if he would make a comment to—All he did by saying that to me was make me mad. Now, can you imagine what that would do to an 81-year-old retired school teacher? All right. She was denied because of age.

I have got a 74-year-old woman schoolteacher. Same thing: They are trying to give her a 30-year loan.

I have got a 68-year-old retired gentleman. I mean this, I mean I could tell you horror stories all day long. These people get me in their house. I was telling Randy before the hearing started, I sold this 81-year-old retired school teacher a black and white television for $89. It took me 2 hours to deliver it—she locked me in the house to tell me all this stuff. [Laughter.]

Mr. CASTLE. But I mean I am serious. I mean, it is not funny.

Mr. MAVROULES. I know it is not.

Mr. CASTLE. You get what I am saying.

Mr. MAVROULES. I know you are serious. Absolutely.

Mr. CASTLE. And when I started out it was just me. And then all of a sudden this thing, well, I got your letter on Wednesday. Our paper only comes out 1 day a week. And I got your letter on Tuesday. It goes to print on Monday, so I could not do it. I put it in the paper this past Wednesday. And I have had eight businesses that have documents here today.

Mr. MAVROULES. That is good. I am delighted that you are able to do that. And I think the more information we can gather together, the more helpful it will be.

Mr. CASTLE. One of them is a 68-year-old gentleman. They are trying to give him a 28-year-old, so he tells me. And his son is a lawyer, prepared all the papers. And he said, "They will not even talk to me."

And I can go on, you know.

Mr. MAVROULES. Sure. Well, I appreciate your testimony. Do you have other questions, Harley?

Mr. STAGGERS. No.

Mr. MAVROULES. I want to thank both you gentlemen for your testimony. We are going to take more. And then we will listen to the SBA officials, too.

Thank you very much. You have been very helpful.

Mr. **Castle**. Thank you.

Mr. **Burns**. Thank you.

Mr. **Mavroules**. The next panel will include Alvin Rumer of Petersburg; Ms. Vivian Huffman, of Onego; is that correct?

Mr. **Staggers**. Onego.

Mr. **Mavroules**. And George Leatherman, Mrs. Miriam Leatherman from Old Fields, WV.

Would you come forward, please?

Are you Ms. Vivian Huffman?

Ms. **Huffman**. Yes, sir.

Mr. **Mavroules**. And you are Mr. and Mrs. Leatherman?

Mr. **Leatherman**. Yes, sir.

Mr. **Mavroules**. Mr. Rumer is not here. OK.

Thank you for coming. Would you continue to testify?

TESTIMONY OF VIVIAN HUFFMAN, ONEGO, WV

Ms. **Huffman**. Yes, sir; I came here because I have tried to get help in the flood, and everywhere I would go to talk to anybody I would get the runaround. I would talk to one here. I would go wait a little while. First thing I knew I was getting anxious. And talked and wait. And then there would be a new one in, a new man or a new woman.

Mr. **Mavroules**. What kind of a loan were you seeking?

Ms. **Huffman**. Sir?

Mr. **Mavroules**. What kind of a loan or help were you seeking?

Ms. **Huffman**. I do not know. I was so tore up I really did not know who I was talking to.

Mr. **Mavroules**. Did you file an application for help?

Ms. **Huffman**. Yes.

Mr. **Mavroules**. You did?

Ms. **Huffman**. Yes, I did.

Mr. **Mavroules**. And then the confusion began after that?

Ms. **Huffman**. Well, right soon after the flood they had people to come in there at Franklin to sign up. And I signed up. And in a few days my son came home and took me away. He thought I had drowned. So he came to find me and took me down to Mobile with him.

So I was down there for 2 weeks. But I could not rest because I figured there were things, it took my bridge, took two, about three or four other buildings and almost got my home. And you are just so tore up, and you are going here and there to try to find help. And it seemed like up to now I would just get a runaround.

Mr. **Mavroules**. OK. Maybe we can get into that later when the officials come before us. OK? We would be glad to talk with them.

George and Miriam, if you would like to testify we are ready for you.

Mr. **Leatherman**. All right, sir.

TESTIMONY OF GEORGE AND MIRIAM LEATHERMAN, OLD FIELDS, WV

Mr. **Leatherman**. Mr. Chairman, our experience with the Small Business Administration individual family disaster loans has been one of extreme frustration and confusion. After the flood of November 4, 1985, we were among the first families to visit the DAC center and discuss our recovery alternatives.

At this point we discovered we were eligible for an SBA loan with probable refinancing of our existing mortgage. We received the initial application and instructions on that day, November 14. We completed this form and mailed it the following day, November 15.

An SBA official verified our losses in mid-December. On December 27 we were contacted by our loan officer, Hal Cone. Mr. Cone said we qualified for an SBA loan in the amount of $60,200 at 4 percent interest. We felt this amount was more than we could afford with our present mortgage.

In this conversation we mentioned refinancing, as promised us in the DAC center. He said he did not believe we could refinance, but he would check with his supervisor.

That same day Mr. Cone called again saying we could not refinance and would have to take the entire $60,200. Other people in our area were intimidated by the large loan amounts. Afraid of not being able to repay, they abandoned the loan process at this point.

After much discussion, and a firm stand on our part, Mr. Cone agreed to consult with his supervisor regarding refinancing our present mortgage. On January 3, 1986, Mr. Cone called to verify our SBA loan in the amount of $78,000 at 4 percent interest for 28 years with a monthly payment of $390. This included the refinancing of our present mortgage and disaster recovery funds.

He then informed us a packet would arrive in 2 weeks from their legal department. This packet did arrive 6 weeks later.

After 2 weeks we began to call Atlanta to check on the delay of our packet. This whole process led to much frustration. The receptionist would make excuses that Mr. Cone was not there. At times they said Mr. Cone did not work there. They said his supervisor was sick. And the excuses would not quit. We finally talked to Mr. Chuck Noble who promised to check on it, and again no results. We then were told it was in legal.

When we contacted the legal department they said it was in processing.

On February 4, 1986, we contacted Representative Harley O. Staggers, Jr., and asked for help in this frustrating process. We were contacted at this time by Randy Rhodes of Congressman Staggers' office. The SBA said we would receive our packet in 15 days.

We did receive this first packet on February 25, 1986, 102 days after we filed for our loan. We returned this packet within 1 week, thinking that the loan process was complete. Boy, were we wrong. The first of March brought a huge packet with many more complicated and frustrating papers. Up to this point we had completed all papers ourselves, but this last packet completely overwhelmed us so we went to a lawyer for assistance. He helped with some papers and recommended consulting the SBA representative, who was in town that day.

This representative provided some help, but was not understanding of our frustrating situation and ridiculed us for consulting a lawyer.

We returned this final packet on March 29, 1986, and received our first check on March 29, 1986. Now we are facing itemizing each bill incurred in the repair costs, requiring a ton of paper, hours of time, and much frustration again.

Our experience with the SBA individual family disaster loan programs has been frustrating. We have received mixed messages about what SBA can and cannot do. We have had several promises without action from "Your packet will be there in 2 weeks," to "It is in the mail."

Phone calls to Atlanta resulted in constant runarounds and rude receptions. The amount of time to process a loan is frustrating, demoralizing, and unrealistic. The complexity of the paperwork is prohibitive in helping people who need the assistance.

We suggest that future disaster loans be made in a much simpler, more courteous, and much more timely fashion.

Thank you.

Mr. **Mavroules**. Thank you very much for testifying this afternoon.

What is the status of your loan right now?

Mr. **Leatherman**. We have received our first $5,000 loan.

Ms. **Leatherman**. We have returned the second packet.

Mr. **Mavroules**. Yes.

Ms. **Leatherman**. And we are at the point of itemizing and xeroxing all of the receipts.

Mr. **Mavroules**. All right.

Ms. **Leatherman**. And it is not quite as high as your ton of paper but it is about three-fourths that.

Mr. **Mavroules**. Did you have any problems communicating with the SBA or other Federal officials?

Ms. **Leatherman**. Yes; I mean, that——

Mr. **Mavroules**. You did. How many phone calls did you have to make to Atlanta? Do you have any idea? Just give me a rough idea?

Ms. **Leatherman**. At least 30.

Mr. **Mavroules**. Thirty phone calls to Atlanta on your telephone bill?

Ms. **Leatherman**. Yes; and that was after you got through, you know. The lines were very busy.

Mr. **Mavroules**. Sure.

Ms. **Leatherman**. And there were 30 different numbers. So that there would be times I would spend an hour without stop trying to dial and getting a busy signal and just continuing that process.

Mr. **Leatherman**. We met with an official in Morgantown, and he explained that there had been a lot of disasters and our area's disaster was last on the list so it would take a little time. But nobody told us this to start with. If they had come forth and said, we have got lots of stuff to do, just please wait and be patient and we are going to get to you, it would have been a lot easier. But you are playing with a lot of people's emotions in a very fragile state.

Mr. **Mavroules**. That is the point I am trying to make. I think you make it very well and you say it much better than I do.

Harley.

Mr. **Staggers**. Mr. and Mrs. Leatherman, you all deal with papers. What do you all do as a livelihood? I mean, are you familiar with redtape and stuff?

Ms. **Leatherman**. Yes; I am an extension home economist, so we have a lot of reporting and documentation. That is part of our lives. And George is a farmer.

Mr. **Leatherman**. Have lots of loan applications and stuff.

Mr. **Staggers**. FHA and——

Mr. **Leatherman**. Right.

Mr. **Staggers** [continuing]. Other Government agencies?

Mr. **Leatherman**. Yes.

Ms. **Leatherman**. So we are familiar with that. And I think our main concern was that so many people just got totally overwhelmed at the whole process. I think that this lady could just really reiterate that that they just threw up their hands and ran the other way. We——

Ms. **Huffman**. Don't know.

Ms. **Leatherman**. You know, we tried to be patient until the last, until the last when the SBA representative sat across the table from us and said, "Why did you go to the lawyer?" And then the cork popped.

Mr. **Mavroules**. Yes.

Mr. **Staggers**. But even with that you felt you had, even with your experience you felt you had to go to an attorney?

Ms. **Leatherman**. Yes.

Mr. **Leatherman**. Well, mainly, one thing, they had a checklist and then had a title insurance search. And I was under the impression that the attorney had to fill that out.

Mr. **Staggers**. OK.

Mr. **Leatherman**. But then he helped us figure out what the rest of the stuff was.

Mr. **Staggers**. If it had not been for the title requirement you would not——

Ms. **Leatherman**. No; I think we would have ended up there anyway.

Mr. **Leatherman**. Yes; we were at the point that we were just too frustrated.

Ms. **Leatherman**. That last packet was the end.

Mr. **Staggers**. What about the requirements of the loan? It seems to me in talking to you in the past about some of the requirements, what you could spend it for——

Ms. **Leatherman**. OK. It is very specific in categorizing. For instance, there are *x* amount of dollars for ceilings, *x* amount of dollars for carpet. They are very, very specific.

And, in fact, if you are a good money manager you may be able to save in one area but then use it in another area. And again, the concern of what is better than before? If your house is totally gutted, whatever you put back is going to be better than before. And is it not an appropriate opportunity to make your home changes that would make for comfort and easier living.

Mr. **Staggers**. So you are not talking about putting up a mansion or other rooms?

Ms. LEATHERMAN. No, no, no, no; these are just basic functional things that might improve if you had lived there and you were going to change them. I am not saying gold-lined fixtures——

Mr. STAGGERS. Right.

Ms. LEATHERMAN [continuing]. In the bathroom.

Mr. STAGGERS. But some flexibility in dealing with it.

Ms. LEATHERMAN. Right.

Mr. STAGGERS. OK.

Ms. LEATHERMAN. To manage your money.

Mr. STAGGERS. Ms. Huffman, you mentioned you got the run-around. Do you remember who you talked to? Did you talk to SBA officials—Small Business Administration officials?

Ms. HUFFMAN. No; really I did not. At the time I did not even realize I was in a business, a small business.

Mr. STAGGERS. OK.

Ms. HUFFMAN. I did not realize it.

Mr. STAGGERS. You went right to the DAC centers, the emergency——

Ms. HUFFMAN. Sir?

Mr. STAGGERS. You went right to the emergency centers for the assistance?

Ms. HUFFMAN. Oh, I went wherever it sounded where I thought I could get help I went. And when it came to what agencies I went to, I really did not pay too much attention, I was too anxious to try to get some help some way.

Mr. STAGGERS. When you were told I guess on the radio——

Ms. HUFFMAN. Yes; and then I would go.

Mr. STAGGERS [continuing]. And that kind of stuff that you would get help——

Ms. HUFFMAN. I would go. Yes.

Mr. STAGGERS. Did it ever cross your mind you may need an attorney?

Ms. HUFFMAN. But I never paid any attention to names, only just a few kind of came out.

Mr. STAGGERS. Yes; Did it ever cross your mind you might need an attorney just to get through the paperwork?

Ms. HUFFMAN. Sir?

Mr. STAGGERS. Did it ever cross your mind you might have to get an attorney?

Ms. HUFFMAN. Yes, I have an attorney.

Mr. STAGGERS. That helped you with all this stuff?

Ms. HUFFMAN. Yes. He is here.

Mr. STAGGERS. OK. OK.

Ms. HUFFMAN. And I was told at one place that I went that why did I get an attorney? And I said because I want to try to get some sound advice.

I started on this in a little flood we had in thirty—in 1984, when it was at Harmon and it got its——

Mr. STAGGERS. Right.

Ms. HUFFMAN. You know about that?

And I started then to try to get some help where it would have helped, because I am not a—I do not know what to call it—but I saw that we was going to have a disaster from that because those mountains in West Virginia or here in West Virginia are pretty steep.

I live along the river. And there was an island in the middle of the river, but it happened to belong to a cousin, and would not remove it. And I saw in time that it was going to close up. I followed those rivers up those hollows, too, and I saw all kinds of things thrown in the rivers, trees across the rivers and across here and there. And I got a petition up to try to get those things removed then, before this last flood came. I knew in time it was going to do something.

Mr. **Staggers**. There is probably enough redtape in the Federal Government that we probably could not remove the stuff in the streams anyway. So it had nothing to do with SBA but with others.

Ms. **Huffman**. So I got me an attorney. And everywhere you went he was turned—they did not turn you down, they just did not know. You would never hear from them no more. I called Clarksburg. I do not think I called Atlanta. It is just recently I began to find out there was something wrong somewhere. And you just got the runaround wherever you went.

Mr. **Mavroules**. Is your attorney with you this afternoon? Is he here? Where is he?

Mr. **Sponaugle**. I am going to testify on the next panel.

Mr. **Mavroules**. OK. Thank you very much.

Any other questions, Harley?

Mr. **Staggers**. No.

Ms. **Huffman**. So I did not realize I was in business. Now, I do not have anything against the SBA. I do not.

Mr. **Mavroules**. OK.

Ms. **Huffman**. He will tell the rest.

Mr. **Mavroules**. That will be fine.

I truly appreciate your appearance here this afternoon, you have been very helpful. Thank you.

Ms. **Huffman**. Thank you.

Mr. **Mavroules**. How is the farming business going? Are you a dairy farm?

Ms. **Leatherman**. Yes.

Mr. **Leatherman**. Oh, excuse me. Beef farm.

Mr. **Mavroules**. Beef farm. How are you doing?

Ms. **Leatherman**. How is the farming business going?

Mr. **Leatherman**. Oh, how is it going? Rough.

Ms. **Leatherman**. And floods do not help that.

Mr. **Mavroules**. I know what you mean. Thank you both very much. Appreciate it.

Mr. **Leatherman**. Thank you.

Mr. **Mavroules**. OK, our final panel before we bring in the SBA officials will be Scott Jarrett, the Flood Recovery project, of Elkins, WV; Mrs. Scottie Wiest from Elkins, WV; George Sponaugle from Franklin, WV.

Who is Mr. Jarrett?

Mr. **Jarrett**. I am.

Mr. **Mavroules**. Would you proceed please?

TESTIMONY OF SCOTT JARRETT, FLOOD RECOVERY PROJECT, APPALACHIAN MENTAL HEALTH CENTER, ELKINS, WV

Mr. JARRETT. Mr. Chairman, Representative Staggers, my statement is necessarily general. I have worked with so many people that to be very specific would take a long time.

My name is Scott Jarrett and I work for the Flood Recovery Project of the Appalachian Mental Health Center in Elkins, WV. Immediately following the flood I worked as a volunteer in Parsons, WV, a town 15 miles from my home, cleaning the mud out of flood-ravaged homes.

On the 25th day of November 1985, I began my job as an outreach worker for the Appalachian Mental Health Center. Early on it became apparent that I would be involved in helping people deal with the Federal bureaucracy, primarily the Federal Emergency Management Agency and the Small Business Administration. Indeed, this came to occupy a major portion of my time for the first 3 months that I worked for the Flood Recovery project.

As the deadline for filing SBA applications approached, our program coordinator asked the SBA to supply lists of persons who had received SBA applications at the Disaster Applications Centers but had not returned them to the SBA. The SBA did supply this list, but it should be noted that they did not do so on their own initiative.

This list enables us to conduct a telephone blitz contacting these people and advising them of the approaching deadline. We received the list from the SBA only 3 days before the deadline, which gave us very little time to react.

It should be the standard procedure for the SBA to contact local crisis counselling programs established through FEMA and provide such a list well in advance of the deadline, especially since a flood victim's eligibility for the individual family grant program depends on eligibility for an SBA loan.

In three of the four counties included in the Flood Recovery project the number of applicants for SBA loans doubled or more than doubled during the time we were contacting them. We found that many flood victims were very confused about the SBA and that they appreciated the help we provided in dealing with the SBA.

It was after the applications were in the pipeline and the disaster victims began having to deal with the SBA office in Atlanta that many problems began to surface. At the Disaster Application Center, flood victims were assured that the SBA was coming to the rescue and that help was, at a maximum, 60 days away. This was a cruel joke. I would like to relate an example of which I had direct knowledge.

One young couple was told by the SBA representative at the Disaster Application Center to begin work immediately on rebuilding and refurnishing their home and not to worry about the loan. They were assured in no uncertain terms that the loan will be approved as part of a refinancing package with payments lower than the couple's existing mortgage.

With full faith that all this would happen they went ahead with reconstruction and refurnishing to the tune of about $40,000. Now, 5 months later, and only after pressure was applied by the couple's congressional representatives, has the SBA agreed to lend them $33,000 with no refinancing. So far the commitment has only been verbal.

This is but one case of several that I know of in which promises and assurances were given at the Disaster Application Center.

The consequences of the unreliability of these promises has been devastating to what I call two-time victims, victims first of the flood, then victims of the bureaucracy. Because of several factors, one being the relatively low level of education in the area, applicants soon became entangled in the bureaucratic web created by the SBA and were unable to comprehend what the agency expected of them. I have dealt with many cases where people were asked to send documents after they had submitted their original applications. They sent the required documents and then they received additional demands for more documents.

Forms were sent back to the applicants with cover letters telling the applicants that they had signed or dated the documents incorrectly. In short, the entire process had created so much confusion and disgust among the applicants in this area that the SBA became the object of scorn, derision, and intense bitterness among flood victims.

Additionally, the rules promulgated by the SBA are at odds with the value system and the economic conditions of the area. There is a general reluctance by people in Randolph County to assume large, long-term debts. Their method of dealing with the flood damage is to borrow as little as possible and do the work themselves with the help of family, friends, and neighbors. This, of course, does not fit in with the SBA's way of doing things, which entails lending a large amount or at least larger than the applicant feels necessary, with extremely stringent rules and regulations attached.

One of the most ridiculous stipulations forbids an applicant's building anything better than he or she had before the flood.

One of the most frustrating experiences for flood victims has been trying to communicate with the SBA in Atlanta, especially via telephone. When they were able to get through on one of two toll-free numbers they often spoke to a different person each time, further confusing them, the flood victims.

Quite often in my own experience messages left for a loan officer to call me back were ignored. The women who answered the telephone said that they were forwarding the messages but that the loan officers were complaining of incomplete names and addresses, an obvious attempt to shift the blame to those persons answering the phones.

It is difficult to convey the overall impression of mass confusion, delay, foot dragging, and downright obfuscation that the SBA's actions have created. The net effect has been a complete demoralization of the people the agency was supposed to help—the victims of the November 4–5 flood.

Five months after the flood hardly anyone I have worked with has gotten any money from the SBA.

In fairness to the SBA, when I have spoken to someone in that agency I have always been treated courteously. I understand that they are also underfunded and understaffed and that the pressure on them is enormous. But I also see the tremendous damage that has been done by the actions and inactions by the SBA. It is too late to correct this damage for the victims of the November 4 and 5 flood, but perhaps steps can be taken to prevent such snafus in the event of future disasters.

Mr. MAVROULES. Thank you very, very much.

Mrs. Wiest, if you would testify, please?

TESTIMONY OF SCOTTIE ROBERTS WIEST, PRESIDENT, COOPERATIVE SERVICE COALITION, RANDOLPH COUNTY, ELKINS, WV

Mrs. WIEST. My name is Scottie Roberts Wiest. I am the president of the Cooperative Service Coalition of Randolph County. The coalition is a network of agencies, church groups, charitable organizations, and concerned individuals serving as a support network for victims of community disaster.

The coalition began meeting in mid-November when it was clear that long-term recovery efforts needed to start. Before the first meeting, most of us worked in different parts of emergency rescue efforts. After mid-November we spent most of our energy running a relief center and coordinating services in our area. When the DAC opened in Elkins the center urged people to sign up. We even had a volunteer who helped people with their forms.

The SBA forms required so much on the initial application that most people were overwhelmed. We also made sure that local publicity was given to important deadlines. Three days before the first deadline the SBA finally got the list to the FEMA outreach workers who are part of the coalition. So others in our Cooperative Service Coalition helped call those who had received applications but had not completed them.

This background helped me to see the difficulties people have experienced. The paperwork involved has kept people in a quandary as long as they have dealt with the SBA. Many people who have done the paperwork still have not heard whether or not their loan application was accepted or rejected. On April 10, 1985, there were still 200 pending applications in Randolph County. This means 200 families whose lives are still in limbo.

The forms have been difficult for people without extensive education to complete. Those with an education have also had a hard time with the forms, even those who have accountants to help them. I know of people who have just plain gotten disgusted with the bureaucracy and gone to banks for help. One man, who was even approved for an SBA loan, went to his bank after he saw all the paperwork required to get the entire amount of the money granted. He objected to the piecemeal method of accounting for the amount allotted to him. He felt it was more of a problem than a help to receive a portion of the money and provide receipts, then receive more of the money and provide more receipts.

Early in the process I began to hear flood victims wonder aloud whether they could trust the Government. At the DAC's, flood victims were assured that help would be available. At the DAC's people received information from persons they never dealt with again. Since the people visiting the DAC's were under stress they often did not take in information accurately.

Local Department of Human Service workers did observe the conduct of the SBA in the DAC's. They confirmed what the flood victims report. The clients report that people assured them that they would get help. But the help all depended on more and more forms. SBA representatives in the DAC's did not help people understand what would happen if SBA turned them down. Those who would not be eligible for an IFG were led to believe they could probably get a grant.

I know of several small businesses that are suffering and may well go under because the owners had either their homes flooded, the business, a second income-producing home, or a combination of home/business or business/second home. SBA refused most of these people any assistance because they decided these people were too heavily mortgaged.

It also seems that the SBA is deciding to let this disaster help push businesses into bankruptcy. The worst problem for our area is the difficulty the middle class is having getting their feet under them.

Joe, who has a local retail store, is barely hanging on because his income producing house was left unusable after the flood. With no loan to help fix it he is getting further and further behind. SBA told Joe he could not get a loan because he already owes too much.

Charley's contract business was destroyed by the flood, along with his home. He is also unable to get either a loan on his home or business. SBA told him he has no way to repay the loan. This is a man who was working and making it before the flood and would be making it again.

I feel certain that SBA needs to be a responsible lender, but such decisions are forcing people from the middle class into very hard times.

Then there is the story of Bill and Becky who have gotten approval for an SBA loan after five attempts to finally get their forms in order. The last time they sent information by registered mail they had to call at the Atlanta office because it did not arrive. Atlanta SBA employees said they did not receive it because SBA had moved their offices. Meanwhile, Bill and Becky have found a home they want. They have gotten loan approval. And they are bogged down in lost mail and delays. Mostly they are very angry.

Dee is another person whose story needs to be told. Dee is a waitress, a single mother, and a person who supported herself before the flood. Dee had inadequate insurance, but it is all the help that she will get. At first SBA gave Dee approval and then recently reconsidered and removed her from the loan list.

Actually, since she had started to receive part of the loan and realized the problems of accounting for the loan she, too, is very angry.

These people are those whose stories I know. The hard part is the number of people who are just leaving the area and moving to a more profitable section of the country. I know that preenrollment for kindergarten in the county's largest and smallest schools are both down by one-third.

I realize that SBA cannot change major population shifts. It does seem to me that the intent of the SBA disaster loan is to assist people to get up and going again. This has not happened to any noticeable extent in Randolph County. In fact, the SBA has been a part of the problem.

I want to suggest several things: First, SBA needs to work on clear, printed material that can be easily understood by ordinary people. If the forms themselves cannot be simplified, then people need to be given assistance in filling out the forms. I know that FEMA has rewritten their communications as a result of the West Virginia floods. These new letters are already in use in the recent flood in California.

Second, SBA needs to work with the FEMA outreach workers in contacting people in the early stage to follow through on filling out the forms. By working closely with people who are hired by FEMA to help disaster victims, many more people could be counseled to look at the long term.

Third, SBA needs to lend more money. The people I know who were denied loans are taxpaying citizens; people who were taking care of themselves before the flood and supporting the Government.

It is hard enough to see my home region changed by the flood of 1985, but it is even harder to see the lack of support for its victims.

Fourth, it is important for the SBA to work to decrease the amount of time people must wait for assistance. A disaster is a time during which people need help to get back on their feet. Their Government should not be a part of what gets or keeps them down.

I want to thank you for this time to tell you some of the stories I know of in Randolph County. I hope that this committee will be able to learn from the problems in West Virginia and help SBA correct its procedures.

Mr. MAVROULES. Thank you very much for that detailed testimony. We will conclude now with Mr. George Sponaugle.

TESTIMONY OF GEORGE SPONAUGLE, ATTORNEY, FRANKLIN, WV

Mr. SPONAUGLE. Yes, sir.

Congressmen, I have lived in Pendleton County all my life, with the exception of the time I was obtaining a legal degree and formal education. I am the prosecutor in that county and also actively practice, have a private practice of law.

Now, I was involved in the emergency work immediately after the flood period for about a period of 3 or 4 weeks on a daily basis. And during that time I worked as the coordinator between the Pendleton County Emergency Services and the West Virginia National Guard.

After that period of time I have been involved in the flood recovery to a lesser degree in the sense that I have consulted with the county commission and advised them on various matters and also helped numerous citizens fill out all this Federal paperwork.

Now, prior to directly commenting on the Small Business Administration's assistance, I would first like to state to you all that in my opinion the recovery efforts, as have been implemented by the various Federal agencies involved in the recovery, which would include FEMA, the Soil Conservation Service, the SBA, and the Federal Fisheries and Wildlife, and all other agencies, have been far from desirable.

I realize that not everything will go smooth, but it has appeared to me, at least in Pendleton County, that the smooth operation has been the exception as opposed to the norm. And I was advised by a member of the National Guard who has been through two previous Federal disasters that this would occur. However, I did not expect it. But I have found out that he was completely right.

These agencies appear, as a body, to have little or no compassion for the victims in Pendleton County. I do not mean to state that there were no individuals in those agencies who did not have compassion. There were, and several of them were helpful. However, as a whole, my impression has been that the only thing these agencies are concerned with is to compile accurate records so as to present it to Congress whenever they are called upon to testify as to what they have done in any particular disaster.

I can state with a clear conscience that the spirit of the law as enacted by Congress in creating these agencies and directing their functions has not been followed. The spirit of the law as passed by Congress has been totally lost, and these agencies' implementation of the law through their regulations and interpretations of the law.

I do not believe that the Government should give people handouts. However, it would appear to me that if our Government is going to establish an emergency network to provide relief to our own citizens in times of natural disasters within our own country, then this country of ours could do more than provide low interest loans or nominal grants to individuals who have lost everything they have.

Now, these citizens are taxpayers who foot the bill for our recovery efforts in foreign countries. One of the things that I heard consistently in Pendleton County was that within 24 hours after the volcano erupted in Colombia we had regular Army in there helping those people. It took FEMA 9 days to get into Pendleton County. Pendleton County is at most an hour by air from Washington, DC, and only 3 hours by vehicle from Washington, DC.

This has really sat hard with the citizens of our county. And if Pendleton County is the norm as opposed to the exception in this recovery effort, then our entire emergency network needs to be revamped, because it just does not function.

Now, directing my attention to the Small Business Administration, I would state that their help in Pendleton County has been inadequate and appears to be totally unorganized. Now, our first contact with the SBA was at the DAC center which was opened up by FEMA. I was advised prior to going there that they probably would not tell us that they could help farmers. And I thought really that they should be aware that we are a rural agricultural area and that mainly farmers were going to be the ones that were asking for help.

So, at the orientation when they advised everybody what was going on they did not mention a thing about helping farmers. When I pressed them on the issue then the representative that they had there finally admitted that she thought maybe they could help them if their losses were more than $100,000.

Now, subsequent to that orientation I then started to fill out all these applications you have been hearing about. And they are something to behold. They want your entire life history and everything under the Sun about you, your family, your background, and whatnot.

Now, first of all, these people when they start filling these things out you have got to remember that they have just been through a flood. Most of them have lost everything they have. And then they get hit with having to start filling out all this paperwork and wanting specific detailed itemizations of what all they have lost in the way of personal property, what it cost them, what it is going to cost to replace it and, et cetera, it just goes on and on.

I still have people coming in that are just now remembering things that they have lost, they have come up missing.

Now, some specific examples which I can advise you of in regards to this I will run over here. One is a Harlen and Cory Moyers. I filled out their application and they told me that they were advised at the DAC center that they would get a loan, they would get assistance. So with that in mind we filled out an application for a $40,000 loan for the sole purpose of repairing their home and the bridge which led to their home.

They filed it. And then about 2 to 2½ months after that they received a letter from the SBA which stated that because the application stated they were farmers and their damages were only $40,000, that they were not eligible for SBA help and their application was not being denied, they just were not going to consider it, and sent it back to them.

I called the SBA. I do not know who the individual was that I got a hold of. He was a very arrogant and rude individual. I explained to him that this was their primary residence and that this bridge was the only way they could get into it. And I said, "Why can't you help them? The loan is not for damages to the farm." He said, "Well, because they are farmers it is the policy of SBA that their damages have to be $100,000 before we can help them." And then he proceeded to tell me that if their home was down the road and was not on the farm then they could help them.

Well, subsequent to that I wrote Congressman Staggers and Senator Byrd and Senator Rockefeller on this, as well as numerous other issues which are contained in my written testimony. And anyway, due to their intervention they have now been told that the SBA made a mistake and they will be receiving a loan.

But my whole point in that is this: First of all, they should, Harlen and Cory Moyers should have been told this at the DAC center if that was the policy of SBA. It should not have been 2 months after they filed their application.

And second, it is, to my thinking, a heck of a note if you have to go through your congressional Representatives and tie up their time to get assistance on a matter like this which they should not have to be bothered with.

Now, there are numerous other instances in there. I know you are on a tight schedule and I will not go into them. They are spelled out.

But in conclusion, I would state this, that in my opinion there has been total incompetence in all Federal agencies in handling this disaster. It is not only SBA, it has been FEMA, it has been the Soil Conservation Service. And I think the whole problem is, gentlemen, that there has been no management at all.

I would like to thank you for hearing me on this matter.

Mr. MAVROULES. Thank you. You have been very helpful. I surely appreciate the testimony given by all three of you.

Harley, if you have any questions we will take them at this time. Then we will take our two representatives from the SBA.

Mr. STAGGERS. All of you, you were in some of the centers and helped some of the people, I think. Did you all notice any of the people that were in the centers? Were they West Virginians, any of those people, that were helping people from the Federal Government?

Mr. SPONAUGLE. No; not in Pendleton County.

Ms. WIEST. Not in Randolph County.

Mr. STAGGERS. OK. George, you mentioned about misinformation. And we talked about this up in Salem. Remember the rumor that was going around about no loans if it was in the flood plain?

Mr. SPONAUGLE. Right.

Mr. STAGGERS. Any other misinformation? I mean, these were SBA people that were saying some of the stuff that you remember?

Mr. SPONAUGLE. Well, you heard so many rumors floating around. The whole thing I found was, with all the agencies, they came in, they did not tell the people what they had to do to overcome these regulations. They just come in and say, "Well, we cannot do this for you. This regulation says that that is not the way it is."

Finally, I got disgusted with it and I had your office, Congressman, send me a copy of the regulations. What they were using in the bill was not what was in the Code of Federal Regulations.

Mr. MAVROULES. Do you feel people were adequately trained in the field? I would like all three of you to respond to that question. Do you feel that they were qualified to do their job? Do you think we, the Government, just threw them in there?

Mr. JARRETT. I went through the disaster application process myself because I had destruction of a private bridge that served four families. And my impression was that these people had been on the job less than 6 months, most of them. This I found not only in the Disaster Application Center, but time after time in dealing with every Federal agency that I dealt with, that the turnover was tremendous. I would call Atlanta, for example, and ask for somebody who I had talked with previously and be told that this person was no longer in Atlanta, that they were out of Atlanta.

I also talked to some of the people personally who were working with these Federal agencies, and they had been working for a very short period of time. Because of the fact that there had been so many disasters they were pressed into service, they had to hire people, they had to train them quickly. And most of them had almost no experience whatsoever. That was my experience with them.

Ms. WIEST. I would like to address that, too. I think that the number of disasters that occurred in that short space of time created an enormous problem for every disaster agency. And I sympathize with that part of the problem. But what I looked at in the longer term was what I would call a rural/urban mix, that many rural people tend to go into bureaucracies. Rural people basically think differently.

And I think that we are coming to a point in this country where rural people have such a different mentality that it is very hard to communicate this. I knew a professional, he was a FEMA man originally out of Chicago and now working out of California who said that the only time he had met this kind of mentality was when he worked on an Indian reservation.

Now, that says a lot of things about the West Virginia mind. And it is also interesting that the first place that the Indian and the white man really lived closely together was in the Appalachian Mountains. So we have perhaps become similar. But it does show you how it was very hard. I mean, I am an educated West Virginian and yet it was hard for me to deal with the constant bureaucracy, trying to help people get as much assistance as they could, but knowing what they were up against was an urban mindset as opposed to a rural mindset, which is the farmer problem that you were speaking about.

Mr. SPONAUGLE. Truthfully, I do not think they were qualified to be in the field. And to be quite frank, I am used to at least getting a yes or a no answer at some point along the line. And I am an attorney and I am used to eventually getting an answer.

Well, on most of these problems I never got an answer. Either "we don't know," or "this guy down the road knows." And you would go down there and they just kept passing the buck, so to speak. The only problem is, it never stopped.

And the other thing I think that severely hampered this particular recovery was that the people who came in meant well, but they knew nothing at all about mountain terrain. At least in Pendleton County they had no conception of the devastation that was done, even when they would look at it. And they really did not know how to handle it.

In fact, I was told that FEMA finally admitted in one of the meetings that they did not know how to handle this particular disaster. They were just trial and error. Now that is a heck of a note to do it when you have got people out here that are suffering and they are coming in by trial and error trying to solve the problem. Now, part of that might have been because region 9 had to come in from the west coast.

Now, I am not saying all of them were bad.

Mr. MAVROULES. I understand. I know where you are coming from. Let there be no doubt about this.

Mr. STAGGERS. With this urban/rural mindset, some people felt that we were being taken advantage of in West Virginia because we do have this feeling of—and I think George touched on this—is we have this feeling of taking care of ourselves and relying on neighbors. Do you have that feeling or do you just think it was a lack of communication with rural America?

Ms. WIEST. I think that it was a lack of communication, a lack of sensitivity. I got a lot further if I asked them where they were born and if they told me a farm in Iowa I knew I could make contact with that person. But so many of the people that we dealt with had no concept of what that kind of life was where you would take the values that this country was based on and really live them.

Many of the public officials who came in here from many of the Federal agencies dealt with the West Virginians as if they were trying to take advantage of the Federal Government. And that is the thing least done in West Virginia. We have the highest per capita loss in every single war. I mean, these are very patriotic people, people with a deep sense of their Nation, yet a sense, because of this flood, of betrayal.

Mr. STAGGERS. You mentioned in your statement about most people felt overwhelmed. You are talking about everyone, not just some of the people that had problems with SBA? It is the first page of your statement.

Ms. WIEST. Yes; the sense of being overwhelmed came partly from the extent of the damage. You know, at first when the flood came up we just thought it was one region. But then we realized it was Pendleton County, it was Greenbrier County. Then we realized that it was parts of Virginia, clear up into Pennsylvania. And the extent of that, when you start looking at an entire region, a geographic region struck by one flood, it overwhelms people. And I think that that has come down in our businesses. I think that Elkins particularly is suffering from this; and, that sense of being undone and overwhelmed still exists, now for different reasons. Part of the being undone is the lack of financial support and the ability to get back up on their feet.

But I think that it was both the people who were the flood victims and the people trying to help the flood victims. And I think the bureaucracy was overwhelmed. I think the people I met from FEMA, the people that I know of from SBA, all of them had that same sense that this was just enormous. And yet, ironically, it got such little media coverage.

It is very ironic to me that my own sisters, who now live out of State, did not really realize what happened in West Virginia.

Mr. MAVROULES. I might say that it got enormous coverage back in the Northeast corner where I live, up in Massachusetts. We had coverage of the devastation.

Ms. WIEST. Was it Virginia or West Virginia?

Mr. MAVROULES. Both. Both.

Ms. WIEST. Good.

Mr. MAVROULES. For over 10 days they continued and demonstrated the damage. We felt so very poorly for you in this part of the country.

Ms. WIEST. Glad to hear that.

Mr. STAGGERS. Scott, two of the things you mentioned when you mentioned about having SBA contact other agencies and whatever so that you can get some of the information out, since you are from here and working directly with some of the people, I think they are going to do that. And maybe they can address that when they speak later.

But also you mentioned about the 60 days. And it seemed to me that a lot of the people were getting this information, too.

Mr. JARRETT. It was very specifically 50 to 60 days. I heard this when I went through the DAC center myself, when I made my own application, and from person after person, that the loans would be processed within, not begin, it would be within 50 to 60 days that you would know whether or not your loan was approved. I have a feeling that what happened in actuality was that the people who were working in the centers, in the Disaster Application Centers really did not know what was going to happen. They were making promises based perhaps on what had happened in the past and they were not—no one at that time, I do not think—was aware of the magnitude of the disaster. But still they were making promises to people that obviously were never kept and could not have been kept.

Mr. STAGGERS. So this was not 60 days from a closing, this was 60 days from——

Mr. JARRETT. From the date of application.

Mr. STAGGERS. Did you all experience that?

Mr. SPONAUGLE. Yes; that was the general feeling. They came into the county, all the agencies, and told them they were going to help them. The longer it dragged on the less help that arrived.

Now, if they had come into the county and told the people, "We are going to try and help you, we do not know whether you will qualify," they would have accepted that. They would not have got their hopes up. But they said, "We will help you." And then, wham. I mean, there has been no money delivered in Pendleton County to my knowledge to this date from SBA.

And in fact, and the other thing is I have sent the applications in and then the people will get a call, "We have not received this," or "We have not received that." Well, after the first one I started keeping copies of everything we sent so I would know what we sent. And to the SBA in particular on numerous occasions I sent the same stuff two and three times.

But by the same token, I have talked to people in Atlanta that are very helpful. So I mean, I am not saying they are all bad.

Mr. STAGGERS. Yes.

Mr. SPONAUGLE. But I think as an agency they have got problems.

Mr. STAGGERS. You mentioned that you are a lawyer. I am a lawyer also. But just for the record, where did you graduate from?

Mr. SPONAUGLE. The Vanderbilt School of Law.

Mr. STAGGERS. So even if there is this rural/urban mindset and there is some degradation of West Virginia, you went outside the State and got a legal education someplace else, and so when we start talking about the mindsets or whatever, this is not something—I mean, you went beyond the West Virginia training. Although I have got West Virginia training I feel that it is just as adequate.

But earlier Ms. Huffman testified, and you did mention that you represented her. Can you fill in any more details about Ms. Huffman?

Mr. SPONAUGLE. Yes; I feel sorry for her. She has gotten the total runaround from every agency that exists.

First of all, you have got to consider that Mrs. Huffman is 78 years old. She has tried to help her neighbors plus also get help for herself. I have assisted her in filing SBA applications for loans. They have lost part of her documentation; we have had to send it in again. But she has yet to hear anything, yea or nay, from them is my understanding. It is still pending.

But she has gotten the runaround from the Federal Emergency Management Agency. They would advise her they would be there the next day. They never did show up.

She finally received a check, I think, for $1,200 from them to repair her bridge. They said it could be repaired for that. Well, the only bridge she had was one that you could drive a car across. And the flood took it clear out. She had had an old tree drop, and they put some boards across it, some neighbors, so she could get back and forth. She could not live in her house. But when they did the stream rechannelization they took that out. And apparently that is what the inspector thought was her footbridge was an old tree with some boards nailed across it. And he said she could repair that for $1,200, so they sent her a check for that amount.

I feel sorry for her.

Mr. STAGGERS. Yes.

I want to thank you all for taking the opportunity.

Mr. Chairman?

Mr. MAVROULES. Thank you very much. The questions I have will be toward the officials who will be coming on. I am extremely grateful to all of you for appearing here today.

Our last panel: Mr. Bernard Kulik, who is the Deputy Associate Administrator for Disaster Assistance from the SBA in Washington, and Mr. Richard J. Nash, who is the Director, SBA Disaster Assistance in Atlanta, GA.

Mr. Kulik, do you have an opening statement? Or, Mr. Nash, would you have an opening statement? I know we talked with you at length in Salem. But this is a continuation of the same hearing.

TESTIMONY OF BERNARD KULIK, DEPUTY ASSOCIATE ADMINISTRATOR FOR DISASTER ASSISTANCE, SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC; ACCOMPANIED BY RICHARD J. NASH, DIRECTOR, SBA DISASTER ASSISTANCE CENTER, ATLANTA, GA

Mr. KULIK. Mr. Chairman, we have a version of the opening statement that we gave in Salem with specific regard to West Virginia. I would request that that be included in the record, please, rather than repeat it here.

Mr. MAVROULES. Without objection, it will be included in the record in total.

[Mr. Kulik's and Mr. Nash's joint prepared statement follows:]

SBA
U.S. Small Business Administration
Washington, DC 20416

STATEMENT OF

BERNARD KULIK
DEPUTY ASSOCIATE ADMINISTRATOR
FOR DISASTER ASSISTANCE

AND

RICHARD J. NASH
DIRECTOR, DISASTER AREA 2 OFFICE

BEFORE THE

SUBCOMMITTEE ON GENERAL OVERSIGHT AND THE ECONOMY
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

April 11, 1986

We would like to thank you for the opportunity to appear and testify today concerning our disaster loan program and the assistance that was and is being made available to victims of flooding early in November 1985.

Let us put this disaster and our response in context. In Fiscal Year 1985, physical disaster lending activity was very light. Only 6,468 physical loss non-farm loans were made that year, lower than any year since FY 1969. In fact, since 1982 there had been only one hurricane that struck the continental United States and caused major damage (Hurricane Alicia). However, the 1985 hurricane season (which ended November 30, 1985) quickly changed all that. During that season, 6 hurricanes (the most since 1916) hit the U.S. In that same period, 14 disasters were declared as a result of hurricanes, with 5 of those being major disaster declarations issued by the President. In the first half of this fiscal year, our applications for physical disaster assistance have more than doubled that of the entire previous fiscal year and will undoubtedly exceed the volume for any year since Fiscal Year 1981. Of the 14 hurricane declarations, 6 (including 4 of the 5 major disasters) were in the 19 states covered by our Area 2 Disaster Office headquartered in Atlanta.

As can be imagined, the volume of activity which these disasters generated was significant. However, our system can and does have the capacity to expand rapidly to accommodate it. The Area 2 Disaster Office employed an average of about 100 people from January to August 1985. During August and September, employment doubled to almost 200 people and, in the month of November, doubled again to almost 400 people. And that does not include the sizable volunteer effort which the area office received.

As you know, the President made a major disaster declaration in West Virginia on November 7, 1985. The closing date for filing SBA applications was set at January 6, 1986, but was later extended to January 20, 1986. Pursuant to that declaration, the Federal Emergency Management Agency (FEMA) opened 13 Disaster Application Centers (DACs) on November 13, 1985. DACs were open in 28 various locations in the State through December 6, 1985. SBA was represented at each DAC, which required approximately 660 person days between November 13, 1985, and December 6, 1985. Of these 660 person days, approximately 495 represented SBA staff and 165 represented volunteer effort, mostly local bank officials.

Let us stop for a moment here to mention the outstanding response that we received from banks and their employees during this disaster. As is quite apparent, staffing DACs takes a great many people. In this and all disaster situations, we ask for local volunteers to help us assist disaster victims in the DACs, to explain our lending program, be sure that the victims are aware of the assistance available and have all the necessary papers, and answer any questions they may have. For the most part, we look to local banks for this assistance because they are familiar with the area, the people, and understand credit matters. With a minimum of training to cover the specifics of our program and certain legal requirements, we are able to have them work side by side with our employees with excellent results. These volunteers work long hours with us under the same trying circumstances and we have found that their presence - the presence of a local, perhaps familiar face, with knowledge of the local community - is both helpful and reassuring to victims. We would like to express our thanks to these volunteers for a job well done.

The extended period for filing disaster loan applications for physical damage loans ended January 20, 1986. The period for filing applications for economic injury disaster loans will end August 7, 1986. The statistics for this disaster are as follows:

As of COB 3/28/86

Declared	11/07/85
End of Filing Period	01/06/86, extended to 01/20/86

Applications filed to 12/26/85	1,035
Applications filed 12/27/85 to 01/06/86	673
Applications filed 01/07/86 to 01/20/86	580
Applications filed after 01/20/86	291
TOTAL	2,579
Applications accepted for reconsideration	102
TOTAL	2,681

Statistics		Total	Home	Business
Interviews		9,393		
Summary Declines		3,911		
Applications Handed Out		5,478		
Applications Filed		2,681 (102 recons)	1,914	767
Withdrawn		466 (5 recons)	260	206
Declined		428 (20 recons)	288	140
Approved		1,615 (36 recons)	1,302	313
Applications Pending		172 (41 recons)	64	108
In Verification	4			
In Processing	153*			
In Funding	15**			
Disbursements		191		
Loan Closing Documents Not Returned		999		

* Includes 21 cases subject to 14-day letters (5 home loan applications, 16 business loan applications). When accepted applications are incomplete, or when additional information is necessary, the missing items are requested in writing and by telephone. If the information is not supplied, the applicant is given written notice that the application will be withdrawn if the missing information is not supplied within 14 days. These applications cannot be processed without the missing information.

** Processing for these applications (approvals) was completed as of COB March 28, 1986, but the funding documents had not been completed. They were be approved loans by April 1, 1986.

When a disaster of this magnitude strikes, there are immediate emergency needs for medical services, food, shelter, clothing, etc., that must be met. National and local voluntary organizations, state and local governments and Federal programs such as temporary housing and disaster unemployment assistance are available to meet those needs. SBA's disaster loan program does not provide immediate emergency relief. It provides loans to assist in long-term repair or replacement of uninsured disaster damage.

As a lending institution, particularly one that lends Federal funds at subsidized interest rates, we are obligated to make loans only where we can find that a reasonable assurance of repayment exists. The information requested in our loan application is intended to give us the basis for that decision and to enable us to satisfy the mandates of other applicable Federal laws. In addition, before we can approve a loan and disburse the funds we must be satisfied that steps needed to safeguard the Government's interest as a lender have been taken.

Generally, there are eight steps involved in disaster loan making in a Presidential declaration. They are:

1. Declaration by President

2. Outreach and Dissemination of Information and Applications - This is mainly done in DACs which are organized and run by FEMA. The number, location and timing of DACs are set by FEMA.

3. Filing of Applications with SBA - Applications must be filed within 60 days from the declaration date for physical losses. This time can be extended by FEMA. The timeframe for filing EIDL's is generally 9 months (but currently not to exceed September 2, 1986).

4. Screening and Docketing - Applications received by SBA are screened for completeness and accepted (docketed). Those applications that do not include enough information to even begin the process are not accepted and are returned to the applicant. Where accepted applications are incomplete, a deficiency notice is sent to the applicant requesting the information not provided.

5. Verification - On-site inspection of disaster damage by an SBA construction analyst and determination of cost to repair or replace disaster damaged property.

6. Loan Processing - Determination of loan eligibility, credit elsewhere, repayment ability, terms of loan, collateral requirements, conditions of loan agreement.

7. Loan Closing - Preparing and forwarding to borrowers documents necessary for closing approved loans.

8. Disbursement - Reviewing returned loan closing documents and ordering checks for controlled loan disbursements.

The Agency goal is to have 90 percent of all complete applications from any one disaster processed through to decision (withdrawal, decline or approval) and notification given to the applicant no more than 60 days after they are filed.

However, the system is predicated on the response time from the applicant. In a disaster of the severity of the flooding which occurred in West Virginia, there is considerable emotional stress, and attention must be given to immediate needs of the families affected; consequently, there are delays in returning their SBA disaster loan packages for processing. Simply said, there are more important things to be done than filling out the SBA applications. But, as a practical matter, SBA cannot begin any of the steps involved in loan processing until a reasonably complete application has been filed.

SBA, for its part, begins a mass media campaign to encourage the early return of applications. We establish circuit rides to cover areas with the most damage to offer further assistance to applicants and answer any questions they may have. In addition, we arrange for workshops, usually in the evenings, which are staffed by SBA personnel and volunteers to help applicants complete their applications. We are available through the FEMA hotline in the Disaster Field Office. We also widely publicize our local disaster phone number and the toll free 800 phone number to the Atlanta Disaster office. In the subject disaster, all of these methods were used. Yet, as has been our experience throughout the program, the majority of disaster loan requests were received at the end of the filing period.

As the above statistics indicate, in this disaster 60 percent of the applications were received on or after December 27, 1985 (two weeks before the end of the original filing period), and 11 percent were actually received after the extended closing date of January 20, 1986. The bulge in the pipeline caused by this bunching of applications moves sequentially through screening and docketing, verification, loan processing, loan closing and disbursement resulting in slower treatment every step of the way. Similarly, after a loan has been approved, disbursement of funds cannot begin until the applicant has returned the loan closing documents to us. In the more simple, unsecured loans (generally those of $5,000 or less), the individual applicant must sign the note, loan agreement and provide us with evidence of flood insurance (if in a flood hazard area). Larger, more complex loans must be secured. In addition to the note, loan agreement and flood insurance, such loans may require recording of liens, title searches, hazard insurance, building permits and other loan closing steps designed to satisfy legal requirements and protect the Government's interest as a lender.

To facilitate loan closing, we include specific instructions with the loan closing documents and have a follow-up procedure. The cover letter contains a telephone number to be called if there are any questions. We make follow-up telephone calls and send a written reminder that disbursement cannot start until we have received and reviewed the loan closing documents. When appropriate, we schedule "loan closing" circuit rides to answer questions and assist applicants as far as is possible. In a recent telephone survey of applicants who had not yet returned their loan closing documents, 80 percent stated that they understood the instructions but had "not gotten around to it yet."

We should also mention that businessmen in a disaster area, by and large, do not have the same Federal assistance available to them as is available to individuals. There is no temporary housing program, mini-repair program, or individual and family grant program available for businesses. We realize, up front, that we cannot give businesses assistance as fast as they would like to have it. Because of this, in all our bank contacts at the beginning of a disaster we stress the importance of having the local bank consider an "interim" or "bridge" loan to a business. Of course we cannot commit the Agency to a take out loan, but we can inform banks of our program and procedures and tell them that we would not object if the proceeds of our loan were used to repay an interim bank loan that was used to repair or replace eligible disaster damage. The local bank that is familiar with local business conditions, that already has an established financial relationship with the business, that knows the business and its owners and their financial conditions should be in a position to provide interim financing if the credit conditions warrant it. We also inform the banks that the decision as to whether a business has credit available elsewhere will not be affected by the presence of an interim loan.

We are constantly reviewing our program and our procedures to see if we can make our operation more effective and efficient. Unfortunately, we have no reason not to expect as much activity this spring and summer as we have had in the first six months of the year. This is particularly true in view of the current major disaster in California and the forecasts for possible flooding in the Great Lakes area. From the lessons learned in this disaster and within the limits of available resources, we will concentrate on more up front workshop type meetings after the DACs have closed. At those workshops, SBA employees and volunteers will help victims complete their applications. Because 90 percent of our loans are home loans, if applicants bring with them copies of their tax returns, deeds and insurance information, perhaps a good many applications could be completed during the workshop. In that way, perhaps we can smooth out the filing bulge and increase our ratio of complete applications. Also, we will establish field closing offices, perhaps on a circuit ride basis, using SBA personnel and volunteers to assist applicants in closing loans. In that way we can address problems as they arise, help applicants decide whether to proceed with the loan closing, and facilitate the flow of funds to applicants.

We appreciate the opportunity to be here. You may be assured that we will review the testimony given here to determine if we can improve our program and its delivery within our statutory mandate and within the limits of available resources.

We would be happy to answer any questions you may have.

Mr. KULIK. In addition, sir, I would request that this document be put in the record, which represents merely the statistics in the statement updated to the close of business April 7.

Mr. MAVROULES. Without objection.

[The material referred to follows:]

WEST VIRGINIA, #2217
COB 4/7/86

Declared	11/07/85
End of Original Filing Period	01/06/85
End of Extended Filing Period	01/20/86

Applications Filed To	12/26/85	1,035
Applications Filed	12/27/85 - 01/06/85	673
Applications Filed	01/07/86 - 01/20/86	580
Applications Filed After	01/21/86	293
Total		2,581
Applications Accepted for Reconsideration		140
		2,721

Statistics			Home	Business
Interviews		9,393		
Summary Declines		3,911		
Applications Handed Out		5,478		
Applications Filed		2,721 (140 recons)	1,931	790
Withdrawn		495 (10 recons)	266	229
Declined		456 (26 recons)	296	160
Approved		1,670 (55 recons)	1,329	341
Applications Pending		100 (49 recons)	40	60
In Verification	2			
In Processing	65[a]			
In Funding	33[b]			
Disbursed		236		
Loan Closing Documents Not Returned		1,125[c]		

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[a] Includes 9 cases subject to 14-day letters. When accepted applications are incomplete, the missing items are requested in writing and by telephone during the screening process. If the information is not supplied, the applicant is given written notice that the application will be withdrawn if the missing information is not supplied within 14 days. These cases cannot be processed without the missing information.

[b] These were approved by cob 4/7 but the funding documents had not been completed. They will be approved loans by cob 4/9/86.

[c] Letters accompanying the loan closing documents contain detailed instructions and a toll-free telephone number to call if any questions arise. In addition, SBA has established circuit rides in at least six counties to answer questions about loan closing. When loan closing documents are not returned in 15 days, a follow-up telephone call is made.

WEST VIRGINIA, # 2217
Statistics

I. Net Processing Timeframes (COB 4/7/86)*
From Filing to Credit Decision

	Withdrawals	Declines	Approvals	All
1 - 15 days	40 (8 recons)	59 (22 recons)	137 (29 recons)	236 (59 recons)
16 - 30 days	122 (2 recons)	118 (4 recons)	313 (13 recons)	553 (19 recons)
31 - 45 days	202	141	644 (12 recon)	987 (12 recon)
46 - 60 days	124	117	458 (1 recon)	699 (1 recon)
61 - 75 days	6	20	111	137
76 - 90 days	0	1	2	3
91 -105 days	1	0	5	6
	495 (10 recons)	456 (26 recons)	1,670 (55 recons)	2,621 (91 recons)

* Elapsed time from filing to credit decision, excluding time when application was unprocessable; i.e., when required information was not filed with application and application ~~could not proceed~~ without missing information (in each case applicant was advised, in writing, of missing information).

II. Gross Processing Timeframes (COB 4/7/86)*
From Filing to Credit Decision

	Withdrawals	Declines	Approvals	All
1 - 15 days	21	39	69	129
16 - 30 days	78	97	263	438
31 - 45 days	164	132	538	834
46 - 60 days	174	131	404	709
61 - 75 days	47	50	288	385
76 - 90 days	9	6	73	88
91 -105 days	2	1	35	38
	495	456	1,670	2,621

* Elapsed time from filing to credit decision including time when application was unprocessable because required information was not supplied (in each case applicant was advised, in writing, of missing information).

III. Timeframes* From Credit Decision to Initial Disbursement (Check Ordering)(COB 4/7/86)

	Gross	Net
1 - 15 days	14	68
16 - 30 days	35	130
31 - 45 days	78	34
46 - 60 days	73	4
61 - 75 days	34	0
76 - 90 days	2	0
	236	236

* Gross time includes the time the documents were in the borrower's hands and mail time. Net time excludes the time the documents were in the borrowers hands and mail time.

IV. Timeframes of Loan Closing Documents Outstanding as of (COB 4/7/86)

1 - 15 days	319
16 - 30 days	302
31 - 45 days	279
46 - 60 days	171
61 - 75 days	39
76 - 90 days	11
91 -105 days	4
	1,125

V. For comparison purposes, we have reviewed the available records on some past closed disasters to determine average times between loan approval and disbursement. This review indicates that the average time is 35-45 days. It also indicates a wide range of times. This timeframe in most of the loans is well under 45 days, perhaps even under 30 days. In some loans, however, estimated at 10-15 percent of the total, the timeframe is over 90 days. Of course, this can vary widely from disaster to disaster.

Mr. KULIK. And there are extra copies here if anybody would like to have copies of that statement and the up-to-date statistics.

Mr. MAVROULES. Thank you very much.

You have heard the horror stories. We spent 2 or 3 hours in Salem. We are now here. We hear the same stories. Let me ask a question. Could you update me as to what the status is now of all the requests made of the people here that are being represented this afternoon?

Mr. KULIK. Mr. Chairman, as of the close of business on April 7, going back to the beginning of this disaster, there had been 9,393 interviews. That is, 9,393 people had indicated an interest in SBA assistance. These interviews were not all with SBA, as we mentioned before, many of them were with the FEMA registrars.

Of those 9,393 interviews, 3,911 summary declines were issued. That is, decisions in the DAC center itself based on the information supplied by the applicant that there would be no possibility of repayment and an immediate referral to the individual and family grant program.

The 5,478 applications were handed out, 2,721 applications have been received by us. That figure includes 140 reconsideration requests. Of that 2,721, 495 have been withdrawn, 456 declined, 1,670 approved, which left as of April 11, 100 applications pending, 49 of which were reconsideration requests.

There have been 236 cases in which funds disbursement has been made. And there are 1,125 sets of loan documents that have been sent out to borrowers whose loans have been approved, and not yet returned.

Mr. MAVROULES. That is an update as of the 7th of April?

Mr. KULIK. As of the 7th of April, yes, sir.

Mr. MAVROULES. OK. There seems to be a horrible communications problem, and we found that out this morning, between the applicants, the attorneys who might be serving them, and bureaucrats at all levels.

I want to cut across an awful lot of the rhetoric. And I think what we have to do is try to be objective here this afternoon to help these people with their problems.

I want all of you to know that although we live up in the Northeast corner, we feel that if any part of the country is suffering then we should suffer as a group. And we really mean that. And I want you to believe that when I say it to you. That is why we are here today: To see if we can help you out a little bit.

I want to cut across all the rhetoric and the redtape. You have heard a couple of the stories given to us. You know they are honest people. They are not lying to us. They have a stake here, their own human lives, their quality of life. What kind of promises can you give me and to their distinguished Congressman, Mr. Staggers, to expedite some of the problems? Will they get your personal attention to get these loans off the ground and bring them to a close? We have got to do that because this inaction has gone on too long.

Mr. **KULIK**. First of all, Mr. Chairman, I can assure you that every one of the cases today we will look into. I would request that the committee supply us with a list of the cases, particularly one of the witnesses. I have not seen her official statement, but she testified using first names. If we could get the full names we certainly will look into each one of those cases.

Where anything can be done you may be assured that we will do it, even if it is only to explain the reason for our actions better than perhaps has been understood thus far.

Mr. **MAVROULES**. Also, if there is an emergency we all have a responsibility to come to the aid of the victims.

I would like to see you take these cases on personally. And I can understand sometimes staff members get off the wall, perhaps giving some curt answers. We all go through that. But they have got to understand the frustrations and what people are going through during a very difficult time of need. And we should have a little more common sense, I believe, all of us, as public officials.

But the point I want to get across is that I really want to cut across the redtape here and do the job, just do the job and get out of here and go somewhere else, and put these people back and give them a chance to live.

Mr. **KULIK**. Mr. Chairman, we will review these cases. I will commit that Mr. Nash will review as many as he can personally.

Once again, without the case file and without——

Mr. **MAVROULES**. Exactly.

Mr. **KULIK** [continuing]. Seeing what the reasons were, I cannot comment on any of the specific cases.

Mr. **MAVROULES**. OK. Harley.

Mr. **STAGGERS**. I, too, do not want to go over old ground. You know, I made some statements that you addressed over in Virginia. I do want to make sure, though, that some of the things that you assured Mr. Olin in Virginia will be carried over in West Virginia also, with working with the people here and going about making sure that those things get done.

But I do have a couple. Once again, I mentioned over there, you know, we will deal with the future when we are talking about changing the laws. We cannot really do anything about the past flood. But I am concerned about these loans. I know that Mr. Olin asked what plans you have for closing these loans. And I cannot, either I do not remember or I am not sure that we really had a plan that was laid out. I want to know what plans you have for closing these loans in West Virginia?

Are you going to have something that we can actually start closing these? I assume from what you have already said that that is true.

Mr. **Nash**. Mr. Kulik has already given me orders while I was on the bench to get that going up here. So we certainly will.

If I may just make a comment or two? First of all, we did not find the people of West Virginia any more difficult to deal with than anyone from any other section of the country. You know, we are not unlike the fire station where the people drive by and see firemen sitting out there playing checkers and drinking coffee and wondering why the taxpayers have to pay for that, and then when their house catches on fire they want 60 well-trained, expert firemen at the fire.

This is a problem that we deal with constantly in terms of the type of people that we have working for us. There has been a lot said about their inexperience and so forth.

There were also several comments made regarding the elderly and their problems such as making an 80-year-old a 20-year loan. As ludicrous as this may sound on its face, if you will recall, the Federal Government is by law prohibited from discrimination due to age or any other factor. And the terms of the loan are set by repayment ability.

So if that 80-year-old person requires 30-year amortization so that they can make their payments without hardship, we will make an 80-year-old person a 30-year loan. That is one thing that is questioned considerably.

The people of West Virginia had a slightly higher approval rate than we had over in Virginia. So I think that they are pretty sharp at getting their point across.

We are going to make more effort, Congressman, I assure you, Mr. Chairman, to get up here and get at the root of these problems. There is one thing that I will not sit here and do, because I think that from what I have heard you have heard too much of this already, I am not going to hand you a bunch of bouquets while I am here. Some of you we will be able to help and some of you, because of our regulations and laws, we will not be able to. But we will get you an answer. I think that is what you are all looking for.

Mr. **Mavroules**. I think that is very important. If under the law they do not qualify and we cannot help them, we can at least say so.

Mr. **Nash**. Yes.

Mr. **Mavroules**. All we ask is that your agency and the people who work with you be up front with the people and say, "Look, we cannot help you." Just be up front. And I think the American people have that outlook with regard to our country, if you are up front with them they get behind you. But they do need an answer. It is the uncertainty that is driving them all crazy.

Mr. **Nash**. The other thing, if I could comment on the so-often misunderstood statement of the 60 days business, that I wish someone could tell me how to say this so that it is understood, because I have made this statement time and time again, and time and time again it is misunderstood. What I say, verbatim, is this: That our agency goal is to process to the point of a decision on the loan, yes or no, on 90 percent of the complete applications within 60 days.

Now, we have attained that goal here. The problem is, the catch in it all, if you will, is commencing, in other words, the clock does not start ticking on that 60 days until the application is complete. So if there is something missing from the application that prohibits its further moving through the flow, it is dead in the water. Now, we do not consider that clock ticking on our time.

So we talk about such things as net time, and so forth, gross time. And the thing that is said, and perhaps my own people are not saying it correct, Congressman. I have heard that so many times that I believe that they are not saying that correct.

Mr. **Staggers**. I have got to believe that.

Mr. **Nash**. It cannot be misunderstood that much.

Mr. **Staggers**. I have got to believe that they maybe either misunderstood your directives or they just were not communicating with you.

Mr. **Nash**. I certainly agree with that.

Mr. **Staggers**. Let me ask you a question. You mentioned that you are going to try and help these people and you are not going to be able to help some. It has been brought up about the ability to repay. In Salem the one gentleman made the point, I think very well, when he went to the SBA and he showed them the tax returns and they said, "You had this $75,000 loss last year and you are not going to be able to repay," the gentleman testified that he had the best quarter, it was even better than his first year.

So on the face of it, yes, you may look back at that individual and say "You do not have the ability to repay." Obviously this gentleman does. And I do not want to just limit it to him because he was able to get here. I hope that you will look at some of these people, like you are going to look at the man in Salem, like you are going to look at the man in Parsons, and say you are going to go beyond just the face of the document and say, well, these people, because they did face an awful disaster, that they may be able to repay on some of these things and not just, not just——

Mr. **Kulik**. Mr. Staggers.

Mr. **Staggers**. OK.

Mr. **Kulik**. May I just make a comment along those lines. Every time we decline a loan the decline letter sets forth a reconsideration procedure. If the applicant believes that we have made the wrong decision and——

Mr. **Staggers**. But that individual has already taken 6 months and——

Mr. **Kulik**. Excuse me, sir.

Mr. **Staggers**. OK.

Mr. **Kulik**. And we have taken that decision because we do not have the right information. For example, the gentleman who said that he has now had the best quarter that he has had. This quarter has been the best quarter since he started the business, I believe he said. Obviously we do not know and we did not know about that quarter when we made that decision. What I am saying is the reconsideration procedure is just for cases such as that.

For example, there have been 140 reconsiderations filed in West Virginia. Of the 99 that have been decided, 55 have been approved.

That is, 55 people, which is, if my head math is right, is probably around 65 percent, 55 people—or probably more than that—55 people have come to us and said, "Look, things have changed. Here are the new facts." And we have agreed with them.

Mr. STAGGERS. Well, I guess my question would be how many people did not reconsider, did not even ask for reconsideration because of the delay? They were initially told, for whatever reason, that it was going to be 60 days. They believed it would be a 60-day period, now it is 6 months. I am afraid that some people are falling through the cracks. That is my fear.

Mr. KULIK. That could be.

Mr. NASH. I could not agree with you more, Congressman.

I can tell you how the program should work. In a number of cases obviously it does not. But we do not consider the disaster year when we are talking about repayment ability. That is why we ask for 2 or 3 years' tax returns. We want to be sure that the business is viable prior to the disaster.

The peculiarity of a disaster loan is that it is a deadweight loan. There was a lot said about upgrading, particularly in businesses. Normally a business borrows money to do something to enhance its income or to create more income, better cash flow, more profits and so forth. A disaster loan does not do that. So it is not that difficult to look at a business' track record and look at his obligations, his debt service. And he would roughly be in that same position after a SBA disaster loan, except that he would have the additional outflow of paying our debt back.

So our loans are unusual to the extent that they do not enhance his ability to repay.

There are phenomena where this gentleman and some other businesses have more business because of the disaster. Obviously lumber dealers and so forth would. But we look at their track record. We should not, if we have, we should not have considered the income or loss in a disaster year.

Mr. STAGGERS. It would appear from this man's statement and the man in Salem that obviously somebody did, because they had always repaid and their businesses were doing well.

Let me get to something else. Hopefully, that will be settled. And if not, we will be back in touch, I am sure. But I have got another procedural type of thing which bothers me some. And I think that a lot of the people that testified today touched on that, even if it is just a perception, that there is an urban/rural, or whatever. I know that you have addressed that somewhat, that you have not had any differences in dealing with West Virginia and other States. But I also understand that you hired extra people because of the amount of disaster in the tricounty area.

Mr. NASH. Yes, sir.

Mr. STAGGERS. Even if we were to have somebody in from Pennsylvania or Virginia, someone who may have been familiar. I am not even sure we had that. And I guess my question would be were there any West Virginians hired?

Mr. NASH. We did hire——

Mr. STAGGERS. As temporaries.

Mr. NASH. We did hire local hires, yes, sir, in the Clarksburg office particularly, which was our field office, our main field office.

Mr. STAGGERS. But it is my understanding Clarksburg was not directly involved in the disaster.

Mr. NASH. That is correct. They were administrative types or clerical types.

Mr. KULIK. Excuse me. The Clarksburg district office was not involved in the disaster. But we also had a Clarksburg disaster office.

Mr. STAGGERS. OK. So we are talking about two different things?

Mr. NASH. I was talking about the Clarksburg disaster office.

Mr. STAGGERS. OK. That would be my second question then. Why was not the Clarksburg district office involved? I assume there is some sort of management rationale?

Mr. KULIK. Yes; there is, sir. First of all, in the past the local district offices had in fact handled disasters. That was changed in fiscal year 1982 as a result of, again, investigations by the GAO, by congressional committees and by our own inspector general, and the horror stories that were uncovered as a result of those investigations.

Bluntly, the district offices are not equipped to handle disasters. They are not familiar with the laws that disaster loans operate under. They do not have the employees who are familiar with disaster operations. They would have to stop their entire operation as a district office and cease that operation and do nothing but work in a disaster situation.

That is the way it was done in the past. It was extremely unsatisfactory. I know that there are people who would question how efficient it is now. But let me tell you that we think it is probably at least five times better than it was then.

Mr. STAGGERS. Well, from the experience that I have had—I am only 35 years old, so it is not a vast amount of experience—but the experience I have had with the disasters, in 1977 SBA did handle in Clarksburg some of the disasters in West Virginia.

Mr. KULIK. Yes.

Mr. STAGGERS. And it was night and day comparison, as far as I am concerned, with the results. And maybe with the disasters of this extent and magnitude the local people could be involved more. That is a suggestion I would leave you.

Mr. KULIK. For one thing, Mr. Staggers, the law has been changed at least eight times since the 1977 disaster.

Mr. STAGGERS. That may well be. But I still think that the local participation could be invaluable in dealing with at least the communication problems.

And that would be my last point is, hopefully, and we talked about this informally, but informally I would like to help or at least urge you all to think about the communication process.

Mr. KULIK. We have thought about it. Mr. Nash has very definite plans along those lines and, quite frankly, plans to use the local congressional delegation offices also, because we think that your offices can probably get the story out as well as any.

Mr. STAGGERS. Yes; the chairman points out that I am sure any congressional office—and I know that I have congressional staff people that were out there in the field. We spent countless hours trying to work with officials. And I think you have heard the testimony. So I will pledge any support that if we ever go through this again that I will be more than willing to give you any staff person you want off my staff.

Mr. KULIK. It obviously is not going to be very much help to the people in West Virginia, but as a result of this experience, in the next disaster, wherever it is, we would use that system.

Mr. MAVROULES. I think Harley makes a good point in reference to hiring local people wherever possible who understand the community, the terrain, as mentioned before during the testimony.

Mr. KULIK. We have done it.

Mr. STAGGERS. If the gentleman would yield?

Mr. MAVROULES. Of course.

Mr. STAGGERS. And especially since you are dealing with hiring new people anyway——

Mr. MAVROULES. Right.

Mr. STAGGERS [continuing]. Because of the amount of the disaster. That is what I have heard from all the Federal agencies is that they had such vast problems that they hired more people, whether it was in the Atlanta office or whatever. And it just makes sense, I mean, logic, common sense, that we would hire somebody locally.

Mr. MAVROULES. Well, thank you very much, gentlemen. Harley, thank you for your great participation. I was delighted to be with you today.

I have your word and assurances, of course, that we are going to expedite. And let us get the closings underway. In particular, let us help the people wherever we can.

I think the SBA as an agency and we as public officials should not take a negative attitude, and I am not saying that you have. I think where we see a negative we should try to turn it into a positive, a surer way of doing things. Rather than saying well, you do not qualify, you did not do this, we should try to get around and try to help people.

I am delighted we had this hearing. I want to thank everyone for hanging in with us this afternoon. I hope it is a little more informative for you. I have learned an awful lot and am delighted to be with you. Thank you very much.

Mr. KULIK. Thank you.

Mr. MAVROULES. The hearing is now closed.

[Whereupon, at 4:55 p.m., the subcommittee adjourned to reconvene subject to the call of the Chair.]

APPENDIX

Appendix A--Letters From Virginia Disaster Victims Requesting Help

Mounted Route Box 72
Clifton Forge, Va. 24422
March 28, 1986

Representative James Olin
1207 Longworth House Office Building
Washington, D. C. 20515

Re: Flood victims in western Virginia

Dear Sir:

In response to your repeated requests seeking letters from flood victims who have experienced problems in applying for aid from the SBA.

I have been actively engaged in helping my son process his request for aid. He was unfortunate enough to have been totally wiped out in the flood of November 1985.

In applying for aid through FEMA we were referred to the SBA and was well received by a gentlemen that had the patience to set and discuss the problem and what was needed. The forms were provided, after many hours of thought and work the forms were completed and returned to the SBA Atlanta office. The Atlanta office on two out of four telephone requests were very helpful and understanding. Two calls were of the Dear John variety. After being referred to the legal department service was very good. We received a follow up call from the original person in the Atlanta office to insure that we were on track. That was very thoughtful and showed a measure of concern that you don't usually find.

The legal office has been very helpful in the processing of the request. It has been slow and I think quite properly so in this instance.

Had my son had to cope with this alone, the situation could very well have been different. He works long hours in long distance hauling and in order to survive in this economy he could not have taken the time off to set and work continously on the forms. That would have added to the delay.

I don't believe the problem is in the SBA or its employes per se. The paper work is horrendous. The number of employes is small in comparison to the size of the job.

This brings forth another problem. The present administration is in the process of dismantling all of the agencies set forth primarily to help the ordinary person on the street. The people that need if you will, a spokesman to cope with the federal government. Since the turn of the century there has been a need for regulatory agencies and agencies to help the people. Just about all of these are scheduled to go unfunded in the next fiscal year. That could be the largest problem the flood victims or anyone else has to face.

Do you want to help the flood victims?
Then fight for the SBA and the other agencies that help the public cope with the federal government.

Very truly yours,
W. G. Van Lear
W. G. Van Lear

March 28, 1986

Dear Mr. Olin,

I am writing this letter to let you know of my problems with the SBA. At this point, my husband, five children and myself are still living in a badly flood damaged house. We filed for bankruptcy on March 17, and any day now the mortgage company will start foreclosure on the loan. Then where will we go?

Part of the problem (the biggest part) is that the deed on our house is in the names of my husband, and his ex-wife, Linda Barber, who now resides in Tampa, Florida. We were approved for a loan from SBA, but were unable to accept their terms. They wanted the house for collateral and said that we could not sell the house for 15 years. We can not live here for 15 more years, we are too overcrowded already. There are seven of us living in a two bedroom house. We have tried for almost three years now to get Linda Barber to sign papers to sell, but she refuses. Also, to get the SBA loan, she has to sign a waiver for

SBA. She refuses to acknowledge anything sent to her in the mail concerning the house. She doesn't even send holiday or birthday cards to her three children. I did mail a letter to the SBA on March 25 and asked them to change our qualifying status with the Individual Family Grant Program in Richmond on the advice of Alice Fascitelli who works for the IFGP, but I don't know that they will. We need to get a grant so that we can move and replace clothing and other items lost in the flood.

Is there anything you can do to help us before the mortgage company puts us out on the street?

The only way to contact me is by mail. we weren't able to pay our phone bill and make the house liveable and give the children a Christmas too, so my phone has been disconnected. You may be able to reach me by leaving a message at: my husbands grandmothers, Clara English, 703-362-0001, or at my husbands work, 703-344-3246.

Thank you, very much Mr. Olin for

anything you can do.

Sincerely,
Mark and Rebecca Barber
2411 Vancouver Dr.
Roanoke, VA 24012

If it is any help, our file number with SBA is 2218-0029

March 28, 1986

Rep. James Olin
1207 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Olin,

We are requesting your help in problems we are having with the Small Business Administration.

We lived in Glasgow and our home was flooded in November 1985. That was the third time that our house was flooded. Because of mental anguish and depression brought on by this, we decided not to return to our home.

We applied for an SBA loan and were notified the early part of January that the loan had been approved in the amount of $27,000. We were told that the loan could be used to relocate. Since that time we have been unable to get any further information from the SBA in Atlanta. We have called the office numerous times and the receptionist always says that someone will return our call. The calls are never returned. As late as March 26

I Called, was put on hold for 10 Minutes, and was then told the people were all busy and would Call back. They did not.

I do not understand what the problem is and why we are receiving this type of treatment from an agency that is supposed to help people in trouble.

We are living in an apartment in Lexington now and paying rent of $275.00 per Month plus utilities. We are both retired and we Cannot Continue paying the expenses we now have. We have our home in Glasgow for sale but so far we have not been able to sell it.

My husband has diabetes and high blood pressure and the tension and uncertainty of this situation has been very difficult for him.

We have both worked and paid taxes all our lives and I dont understand why we are being treated in this Manner when we need help.

It is very frustrating and depressing to have weeks and Months pass and

3

not see any progress made in getting a home of our own again.

Our SBA file number is 2218-0595.

Our telephone number is 703-463-1515.

We would greatly appreciate any assistance that you might be able to give us.

Sincerely,
Mrs. Melvin F. Mosley
Rt. 7
Green Hills Apts. A-4
Lexington, Va. 24450

60 Otter Ave Apt 75
Salem, VA 24153

Rep. James Olin
1207 Longworth House Office Bldg.
Washington, DC 20515

Dear Sir:

My husband and I are one of the many who applied for aid from the government after the November 4, 1985, flood. The house we were renting was not fit to live in and the only furniture we had left was our children's beds and two end tables from the living room.

We did not get our loan application completely filled out until the last day (January 10, 1986). That would explain a delay in receiving aid. Our problem is that we were given so much of a run-around that we are totally confused as to what is happening now. The first indication of any help coming was received the end of January. A form letter saying our loan was approved was mailed from Atlanta on January 28, 1986. Then on February 8, 1986, we received a letter from Alice Fascitelli, Chairperson IFG Adminstration Panel in Richmond. This letter stated that the IFG Administration received our SBA denial and our IFG request. We were instructed to sign our name where indicated and return the application. On February 10, 1986, we mailed that form to Ms. Fascitelli. On February 11, 1986, I received a call from Jim Sublette at the SBA in Roanoke. He told me they received notification of our loan and that we should expect the loan papers shortly after that. This confused me so I explained to him what we were told about the IFG. He said he would check and call me back. When he did call, he told my husband to go ahead and apply for the grant. On February 14, 1986, we received the loan papers. Since we did not know what to do, I called the SBA again. They said to hold onto the loan papers a couple of weeks to see what came of the grant. On February 26, 1986, my husband made phone calls to SBA in Atlanta and Ms. Fascitelli in Richmond. On February 27, 1986, Marlys Buettner with FEMA talked to him because she could not understand how we could be getting help from both organizations. She also said to expect to hear from one of the two - SBA or IFG - within the next week. Before her call that day, I mailed the loan papers to Atlanta. It had been four weeks with nothing received about either the loan or the grant. On March 26, 1986, I called Ms. Buettner at FEMA to see if she could help. She was no longer with them but I spoke with someone else, whose name I could not catch. She said she would check and get back with me. She never did, so my husband called her on March 27, 1986. Immediately after he called them, Randy at SBA in Roanoke called me at work. He told me it was taking a good 4 - 6 weeks to get loans processed. Since it was just 4 weeks on that day, he advised we should wait until the middle of next week before getting anything. I told him about the grant and he said as far as he could tell, we were to get a loan.

It is very possible that we will receive some aid this week. It just seems that all this could have been handled better. We were pretty lucky compared to a lot of other people. We finally found a place to live after 2 months and with the help of friends and family we were able to furnish it for now. I'm glad we did not own that house because we would still be waiting to receive financial aid in getting it back together. What we need now is little compared to that. Even with both of us working, we have to struggle to get by. I cannot go out and just buy the things we need because we do not have the cash. Our apartment is carpeted and we have no vaccuum cleaner. Our mattresses are used and not all that comfortable. It is just these little things we need and cannot get without help.

I can understand about our aid coming late because we were so late in submitting the forms correctly. But I do not believe anyone should be so confused by all this. I do not know if we are the only ones this happened to. It makes you feel that they do not know what they are doing, which may be the case. It makes you feel helpless. This is the first - and hopefully last - disaster we have experienced. If this is the way disaster aid is handled, I feel for anyone who ever has to go through the hassel. It just makes no sense.

Thank you, Rep. Olin, for letting me tell our story. Like I said before, I believe we will be finally hearing something positive this week. But I thought I'd let you know how our case was handled. Thanks again for your help.

Sincerely,

Theresa Patterson
March 29, 1986

March 30, 1986.

Mr Olin

I am writing to you in response to your request about people having problems with the SBA. I lost my home in the flood and am presently living in a Govt. trailer supplied by F.E.M.A. We applied for an SBA loan and it has been approved. I sent all the paperwork they requested the 1st week of March. So far they have not sent me the loan closing papers and my loan closing Deadline is March 31st. They keep tellin me and also the F.E.M.A case worker that my loan has been approved and that all my papers I sent them are OK and that the loan closing papers are in the mail. I've called them several times and I can't get an answer about why the papers are not in my hands yet. I have put a down payment on a double wide home and it is setting on the lot waiting to be delivered. My question is when will I get the money for it and why is it taking so long. I have did everything the SBA has requested but so far all I have to show for it is nothing. I hope you can get this matter straightened out.

Thank you

William L Conner
Rt 2 Box 236H
Buchanan, VA. 24066

Ph. 703-254-2152

My loan contract #
with the SBA is
2218-0331

[illegible], INC.
[illegible] Riverside Dr.
[illegible] Virginia [illegible]
(703) [illegible]

Rep. James Olin
3-[illegible]

12[illegible] Longworth House Office Building
Washington, D. C. 20515

Re: The matter of a turn down for a loan for flood relief

Dear Jim,

The article that I read in the Roanoke Times and World News dated March 28, 1986, stated that you wanted letters from people that have had problems applying for aid from the Small Business Administration.

I spent about a month and a half compiling paperwork for them, I went into detail on all the forms that they requested, about all the debts that I had at the time, I even went to the time and expense of putting all of the answers on a word processor so that the work would be neat and printed out in typewritten form. The problem that I have experienced is that I was too honest on the questions, and as a result of my honesty I was turned down on the request.

My theory was that I could take the proceeds from the loan and pay off the debts that I had planned to pay off from the sale of my inventory that was destroyed by the flood. This would eliminate the short term debts by changing them to long term so that I could get my business going again, and then repay the long term debts. I listed all the debts that I have so that they could see the places and amounts that I needed to repay so that I could get going again.

Instead, I was told that I did not have the ability to repay the debt and pay all my living expenses as well. To this I say they are right because I do not have enough left to get my business going again and therefore I definitely do not have the ability to repay. As a matter of fact I am having difficulty covering my house payments, because I got (3) three payments behind just waiting for an answer from them. I have asked the mortgage company to let me pay (2) two payments per month for the next three months to get me caught up and current. This makes my payments $1,283.36 per month just on my house.

I just received a phone call from Senator Paul Trible's office and the lady that I was talking with said that she was going to call the Atlanta office to see what the SBA wanted in the way of additional paperwork in order for them to review my case, she said that she would call me to let me know what she finds out. When I get her call in, I may have the answers that I need to get the matter straightened out. If that proves to be the case I will advise you of the changes and the steps that I have taken.

Thanks,

APR 07 1986

April 2, 1986

Mr James Olin.
Washington, D.C.

Dear Mr Olin,
I have been Advised to Write you Concerning the flood. We have been turned down for a loan on account of our low income.
Warren Campbell of Roanoke A Nephew of Ours Thinks you May be Able to help Us.
We did receive the $5,000 grant, Also 384.00 from FEMA. Also the Red Cross helped so much bought Stove, Couch Chair and 2 end tables also linens and towels, total $112.00
We had About 18 to 20 inches of Water on 1st floor With Carpet and furniture all wet And muddy. We have had three rooms and Porch repaired Which Cost

$3,125.00, We do not have money to repair Kitchen and back Porch!

Am inclosing All Papers and estimates of the damage. Also What we have Spent The 1,000 for.

Washing machine repair	122.00
Dryer. New	416.00
Flood Ins.	173.00
Table and 2 Chairs Second Hand	125.00
Hot Water Heater	200.00
Repair of Wall in house and Porch.	$125.00

We Still have to have Carpet for three rooms which will Cost around $1,800. Also Kitchen floor, Sink, base Cabnet, And Walls.

If we Could get a Small loan, Could Pay it back alright. Also I have Some one who Will Co sign for loan. And will gladly send her Name and address. So She Can be Checked. ~~or~~ Also Will give Margaret or Ronie Hunt

We still owe $13.000 on lone.

Thank you for your time, hope to hear from you soon.

Sincerely,
Mr And Mrs Lyttleton Bowers
527 W. Main St.
Covington, Va.
24426.

Would you please return the Papers.

April 02,1986

CONGRESSMAN JIM OLIN
1207 LONGWORTH H.O.B.
WASHINGTON, D.C. 20515

Dear Sir;

In the November 1985 flood, my wife and I received damage"s estamated by the Small Business Administration of $8,500.00. First I feel that there was more damage and lost than what they estamated. This damage was due to 21 inches of sewage back up in my base-area of which is a very large recreation room, full bath(of which the walls are falling in), a bedroom laundry room, closet, and storage room. The complete basement had carpet, and completely finished with panelling. All of this is going to have to be replaced, along with all items in the area. I was advised to go to the Salem Civic Center and apply for a low interest rate loan, since I had just paid off a $10,000 loan the week before from were I was flooded 9 months after buying the home, and can not afford to barrow money again to do the repairs.

I went to apply and was given papers to fill for loan, which I did and sent them off. I was after some time advised that my loan had been approved at 4% , 10 years with repayment of $90.00 per month. My wife and I were happy about this and were looking ahead to getting our home back together, this was until we started getting all this paper work and were advised that a second mortage would be put against our home. We became very upset over this and can't understand why this is. I have talked with many people that took time from work as I did, applied for these were never told anything about a second mortage and the other requirements. We don't understand how Ronald Reagan can set in the White House and everytime you read the paper has asked that millions and millions of our tax's dollars be sent to other countries with no strings, no repayment, no interest, and no second mortage. We in the Salem and Roanoke area get hit with something like this and we can't even barrow our own tax's dollars with out all this unnecessary paper work, the waiting, and putting a second mortage on our homes.

I have just sent the mound of papers back to SBA refusing the loan with a letter such as this one. I have talked with a lot of people that have good paying jobs that received grants of $5,000.00 or less and have to pay nothing back and have no strings, this also makes no sence to me. THIS JUST MAKES NO SINCE TO ME, THESE ARE MY TAX'S DOLLARS, THAT ARE TAKEN FROM MY PAY CHECK. I WORK FOR THE GOVERNMENT, AND HAVE HAD NO INCRESE IN COST OF LIVING FOR OVER 2 YEARS, I'M HIT WITH THIS AND CAN'T BARROW MY MONEY, FROM MY COUNTRY AT A LOW INTEREST RATE WITHOUT ALL THE PAPER WORK AND PUTTING MY HOME UP.

I am writting to you because of the interest you have shown in the newspaper, and from your letters that we receive at home. As I have said the SBA is receiving my loan papers back, I will never waste my time with anything like this again, or will I ever tell someone to loose time from there job to be treated like this. We all went through enough and lost enough in the flood and should not be treated this way.

My wife and I will do the repairs as we have the extra money, which is going to take some time to do. I futher think that out of my $8,500 in damage I could only take $1,444 off on my taxes, and feel this is also very unfair.

Thank you for your interest in this matter and keep up the job you;er doing. Please keep sending out your news letters, and any other information you feel might be of interest.

CALVIN H. WILLIAMS,JR. C.H. Williams Jr.
832 PYRTLE DRIVE
SALEM VIRGINIA 24153

April 3, 1986

Rep. James Olin
1207 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Mr. Olin,

We are November 1985 flood victims in Alleghany County.

We applied for an S.B.A Relocation loan and was turned down because we had flood insurance. Mr. Olin, our flood insurance did not cover our loss. Our home was totaled. We carried \$35,000.00 on the dwelling and \$7,800.00 on the contents. The National Flood Insurance adjuster said it would take \$52,323.28 to restore it to the original state before the flood. Thats the house only, our contents were destroyed also.

Out of the insurance money we had to pay off the existing mortgages, which one was to S.B.A. for the flood in June 1972. After they were paid we had approximately $^{\$}$27,000^{00} which we used to relocate.

The S.B.A. adjuster gave a figure of about $^{\$}$60,000^{00} to redo the building.

We relocated because we felt we couldn't live there anymore and feel safe, as this was the second flood in 13½ years at that location.

We hope you will be able to help us, as the only thing we asked for was

a relocation loan.
Thank you for taking
your time for this matter.

Sincerely,

Russell and Thelma Jones
Rt. 3, Box 27A
Covington, Va. 24426
Phone - 962-0421

3637 Kentland Dr., S. W.
Roanoke, Virginia 24018
April3, 1986

Honorable Jim Olin
U.S. House of Representatives
Washington, D. C.

Dear Congressman Olin:

In November, 1985, even though we are not in a flood plain, we received a four and 1/2 foot amount of water in our basement as a result of the power outage from Applachin Power Company. Primary source of the water was from the sump. Our basement at that time was fully finished with office, work area, and living area. Naturally, we were very proud of the carpet and the furnishings located here. The water completely devastated our basement, furnishings, and all of our records stored therein.

For several years, I have been forced to work out of the home doing odds and ends Engineering jobs due to certain heart condition and other health problems as a result of radiation exposure in 1954 while in the US Armed Forces. I am classed by the Veterans Administration as 100% disabled, however, I am rated at 0% compensation. I am therefore forced to work at those things that I can do in order to make a living and support my family. I am also not eligible for Social Security Disability due to the "Reagan Philosophy". It is either work or welfare, and I have never accepted the disgrace of receiving anything for free.

As a result of the health problems and my inability to hold down a full time vocation, money is not always floating in surplus around our house. We manage and cope with the problem however. We do have one girl in college and another in Cave Springs High School. We do however, pay our bills and manage to keep up the property. Needless to say when the water damage occurred, I personally was devastated.

Our first concern was that fortunately no one was injured and happy that the water did not damage the structural part of the house. We started by cleaning up the debris left in wake of the water. Essentially all of my hopes, dreams, and old mementos were trashed. I received a light of hope however, as one of the first to check out with the Federal Disaster Assistance Center at Salem. I was also very up and high about the possibility of receiving enough money by loan to rebuild and place everything back to normal.

First, it was very difficult to find all the records and then to secure estimates on the damage, and then the torture of completing the forms and statements required by the Small Business Administration. Then comes the wait for a review person to look over the estimates and then agree or disagree with your figures. Then the fun begins.

As an example of the "incompetence" of the SBA, I received a letter of rejection the same day as the file was received by the Atlanta office. The rejection was on the basis that the SBA did not believe that I was capable of payback on the loan due to the low income figure. The question that came to mind at that time was why in the hell didn't the office here tell me that there was a restriction that you had to be a millionaire in order to qualify for a DISASTER LOAN.

I disagreed with the SBA over the ability to payback in that, we could reduce the amount of the request, extend over a longer period of time and that I personally did not see how they could make the statement of rejection in a one day time frame. Personally, I have never seen such inept, abrupt attitudes by personnel who were supposedly there to assist you in trying to pull yourself back to normal. To ask for a reconsideration, I went through more bureaucratic "red tape". Finally in March, 1986, I told the SBA to keep their money and place it in a safe spot.

At the same time, I applied for a similar business loan. The results were the same, ending with a rejection letter in March, 1986. I cannot tell you of the ultold manhours expended working on estimates of the damages, attempting to locate records, filling out forms, answering letters, and for WHAT-Nothing. I was under the impression that the intent and purpose was that the SBA was there to assist those who received damages and help them rebuild. I was sadly wrong about that concept. They are there to make loans to millionaires.

I am truly saddened by the fact that our government can "give billions of dollars" to other countries, yet cannot make a loan to a disabled veteran who gave it all to my country during the Korean and Vietnam conflicts. I am sad to see the total insensitivity of the current administration and its policies toward their own citizens. Sad that we have arrived at this point in the history of a great nation.

Sincerely,

Gene Curbow

Gene Curbow

Route 5, Box 354
Covington, VA 24426
April 10, 1986

APR 17 1986

Mr. Nicholas Mavroules, Chairman
Committee on Small Business
U. S. House of Representatives
Subcommittee on General Oversight & the Economy
B-363 Rayburn House Office Building
Washington, DC 20515

Attention: Jim Olin
Member of Congress

Dear Mr. Mavroules:

My apologies for not being able to testify as a witness at the hearing on disaster loan assistance scheduled for Friday, April 11, 1986 at the Salem Civic Center. I underwent major surgery on March 25 and at this point, I am still unable to drive.

I wanted to write and try to give you a little information as regards my experience with the Small Business Admin.

I applied for a Disaster Home Loan on November 20, 1985. I had six feet of water in my basement, with my oil heating furnace, electric hot water heater, washer and dryer, sump pump, and my family room being completely under water. I had a represnetative of the SBA come to my home and ask me questions and look at the basement. He told me I could expect to hear from them s hortly.

I received a phone call at my place of employment from a Mr. Zimmerman in Atlanta. He wanted to know the name of my mortgage company and the address. I did not have this information with me at work and told him I would return his call the next day. He was very rude to me, saying he could not believe I didn't know this. The next morning, before I had a chance to return his call, he called me again. I gave him the information he wanted and he asked me the balance owed on my home and I gave him this figure. He then told me that he could see no reason for my loan not being approved.

A couple of days later I received another phone call from This man advising that my loan for $9800 had been approved. I advised him that I would like to know the amount of the payments and the length of time for the loan to be repaid. He advised this would have to be worked out. I told him that I had only asked for a loan of $4,000, not $9,800. He said that my estimate of the damage I suffered was lower than what the SBA had estimated. I told him I only wanted the $4,000. He was very rude to me, stating that he couldn't understand what the problem was. I advised him that I would think about it and make a decision. He said he couldn't understand what there was to think about, he thought I needed the money to get my home in liveable condition again. He was very short with me and very rude and when I hung up the phone, I was in tears. The last thing I needed was for him to take this kind of attitude with me.

Page #2

The more I thought about the manner in which he treated me and the fact that I did not ask for the amount of money they were trying to give me, the more upset I became. I decided to phone Mr. Olin's office in Roanoke and relay the information to him. I did this and left all of the information and my name and phone number, etc.

The very next day, I received a phone call from Atlanta from a different individual advising there would be no problem with me getting the loan for $4,000 and that I would be hearing from them.. I did receive the loan papers from the SBA on January 24, 1986. The loan was for $4.000, with the payments Being $52 per month for the next 8 years. I had 60 days to make my decision, sign the papers and return them. I was also required to take out the maximum flood insurance on my entire home and its contents.

On March 17, 1986 I submitted a letter to SBA advising that I did not feel in a position to accept the loan because of my financial situation. I am single and attempting to buy my home and felt it in my best interests not to get involved with this because I was not pleased with the dealings I had had with the SBA up to this point.

I can understand that the SBA had lots of applications for loan assistance, but I was very upset with the way I was treated, being almost forced to take more money than I asked for and the very rude and unprofessional manner that was displayed.

I hope this information will be of some help to you and I appreciate being asked to testify at the hearing and I regret that I was unable to do so because of medical reasons.

Sincerely,

Carolyn S. McCormack
Carolyn S. McCormack

Please excuse my typing, as I am unfamiliar with the typewriter and I am accustomed to using an electric one instead of a manual one.

COPY

April 25, 1986

P.O.Box 2621
Staunton, Virginia
24401

Small Business Administration
Disaster Assistance - Area 2
75 Spring Street, SW, Suite 822
Atlanta, Georgia 30303

Attn: Charles Noble

Dear Sir;

This letter is written with the anticipation, that I will receive some help with the SBA Flood Assistance Loan, which I have been approved for.

With all the stipulations that have been applied to this loan, I cannot agree or even afford it. In order for this loan to work for me I will have to have charge of the monies, as to where and what it will be applied fo. For instance I will have to pay off the two loans I had to get in order to replace the two vehicles I lost in the flood. The payments on these two loans are four-hundred and some dollars. The payment on the SBA Loan will run me the same.

Also, I have checked with a number of contractors in this area, that I will have to use. They have informed me that there is no way they will sign a Lien Wavier on any work of this nature. As far as a second mortgage on my property, I have no objection to this, however; the stipulation put against the first mortgage holder is against my better judgement. I am not sure he will even go along with it. It does not sound like good business practice to me.

I do not understand why we cannot have a bank handle this, particularly for the size of the loan. Briefly, I hope I have been able to transfer my frustrations over to you and you will be able to help us with this situation.

Page 2 of 2

Your estimator put our loss down in the amount of $117,000.00 and you have approved a loan in the amount of $84,100.00. This alone should show you how devastating all this has been to us, let alone the problems of trying to obtain a loan with the SBA.

Thanking you in advance, and hoping to hear from you in the very near future, I remain,

COPY

Sincerely,

H Lynwood Craig Jr

H. Lynwood Craig Jr.,

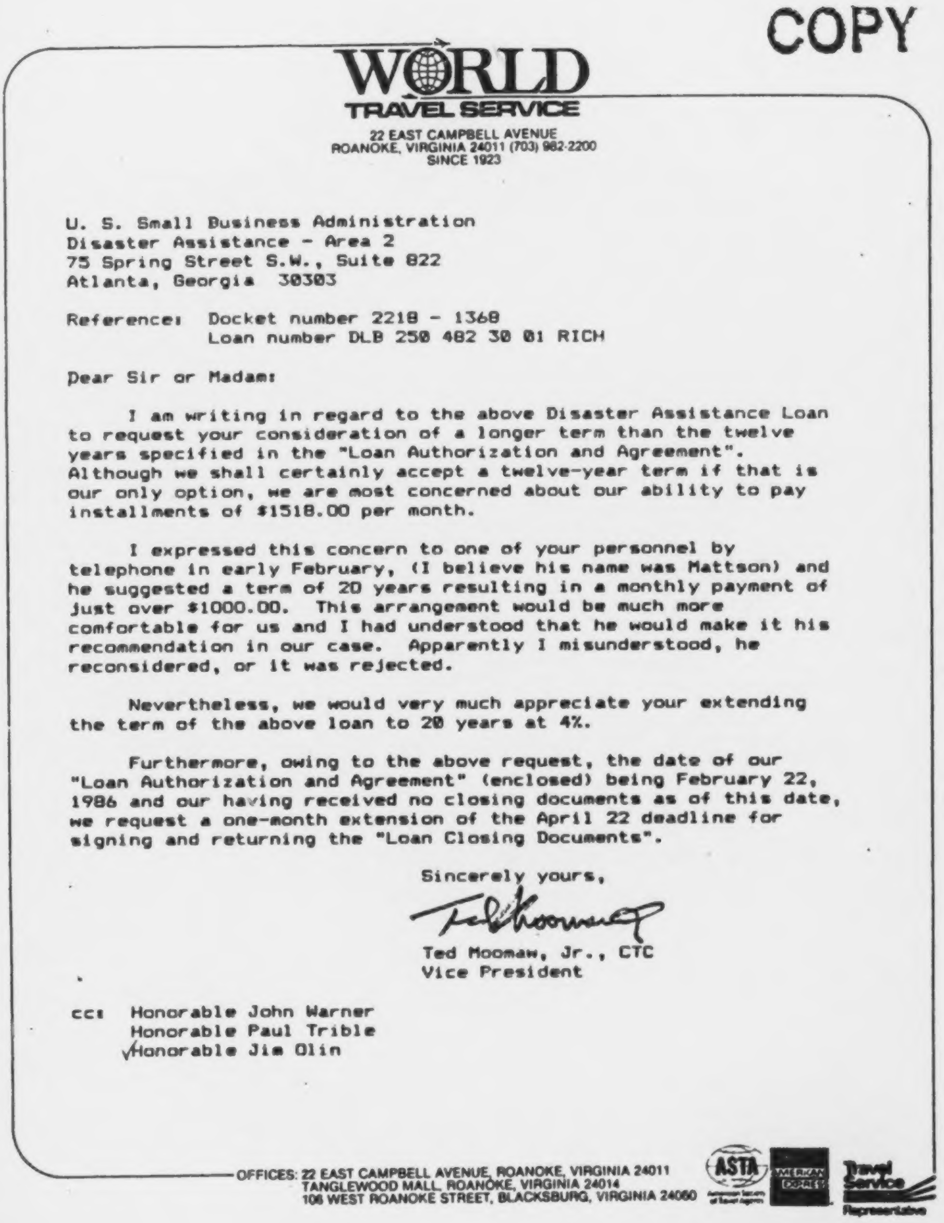
HLC:hc

cc: Nicholas Mauroules
Chamber of Council
B 363 Rayburn House Office Bldg.
Washington, D.C. 20515

cc: Jim Olin
13 West Beverley Street
Staunton, Virginia 24401

cc: Paul Tribble
House of Senate
Washington, D.C. 20515

cc: John Warner
House of Senate
Washington, D.C. 20515



COPY

WORLD
TRAVEL SERVICE
22 EAST CAMPBELL AVENUE
ROANOKE, VIRGINIA 24011 (703) 982-2200
SINCE 1923

U. S. Small Business Administration
Disaster Assistance - Area 2
75 Spring Street S.W., Suite 822
Atlanta, Georgia 30303

Reference: Docket number 2218 - 1368
Loan number DLB 250 482 30 01 RICH

Dear Sir or Madam:

I am writing in regard to the above Disaster Assistance Loan to request your consideration of a longer term than the twelve years specified in the "Loan Authorization and Agreement". Although we shall certainly accept a twelve-year term if that is our only option, we are most concerned about our ability to pay installments of $1518.00 per month.

I expressed this concern to one of your personnel by telephone in early February, (I believe his name was Mattson) and he suggested a term of 20 years resulting in a monthly payment of just over $1000.00. This arrangement would be much more comfortable for us and I had understood that he would make it his recommendation in our case. Apparently I misunderstood, he reconsidered, or it was rejected.

Nevertheless, we would very much appreciate your extending the term of the above loan to 20 years at 4%.

Furthermore, owing to the above request, the date of our "Loan Authorization and Agreement" (enclosed) being February 22, 1986 and our having received no closing documents as of this date, we request a one-month extension of the April 22 deadline for signing and returning the "Loan Closing Documents".

Sincerely yours,

Ted Moomaw, Jr., CTC
Vice President

cc: Honorable John Warner
Honorable Paul Trible
√Honorable Jim Olin

OFFICES: 22 EAST CAMPBELL AVENUE, ROANOKE, VIRGINIA 24011
TANGLEWOOD MALL, ROANOKE, VIRGINIA 24014
108 WEST ROANOKE STREET, BLACKSBURG, VIRGINIA 24060

William E. Robertson, 1339 Stoutamire Dr., Salem.

S.B.A. Loan # DLN 243 723 30-00

Docket Number 2216-0033

11-13-85 Papers for initial screening Disaster Assistance Registration filled in by G. Blackwell at Salem Civic Center. Loan application papers were received approx. 11-13-85. Papers completed and mailed back to S.B.A. in Atlanta 11-18-85 on approx. Nov. 20 I received a letter from F.E.M.A. stating that I would qualify for $425.00 assistance from F.E.M.A. to make temporary repairs to make my house livable until permanent repairs could be made. I received this check in approx. 1½ weeks.

approx. Dec. 4th I called F.E.M.A. hot line to advise them that I had no heat in my house and furnace could not be repaired and had to be replaced (cost of $3,500.00). They advised me to use this money to obtain temporary heat and materials.

I also made several cells to Atlanta S.B.A. to get some idea when I would receive money so I could have contractors start working on house.

I received a check from State Farm Ins. for homeowners coverage for carpet and ceiling damage from roof that was damaged by storm. Roof was not covered nor was furnace. This money was used to make partical repairs to roof.

Several other calls were made to Atlanta during this time but no one could tell me when I would receive any money. Still no heat in my house. Temperatures at this time of year as low as 16 degrease. Also receiving additional damage to my house from water coming in from ceilings from snow and ice and rain. Water pipes freezing in the house.

On 1/24/86 letter was mailed to me from SBA Atlanta, advising me that my "loan request had been approved subject to terms and cond. of enclosed loan agreement and authorization. ALso said "we will soon be sending me a packet containing loan closing documents and inst.". Also gave me phone number 404-331-5854, if I had any questions. I called this number and the only information I was given was that my loan was approved 1-15-86. Could not tell me when I would receive any money.

On approx. 2-7-86 I received loan auth. dated 2-4-86 and agreement. I received final closing documents. The letter stated "1st 5000.00 of loan can be disbursed upon receipt of properly completed documents.

On 2-11-86 I called Legal Dept., 404-331-5854 and talked to Darren Smith. I asked if I could hand deliver these papers and pick up my first disburs. check. He advised me that this could not be done because the check would be mailed from Denver Colorado. Mr. Smith advised ne that if I would air freight the documents to SBA Atlanta office with papers marked to his attention, personal and confidential (enclosed copy) that he would immediately teletype disbursement authorization 2/12/86 and "I would receive a check within 3 to 4 days"! I did so and returned all completed papers 2-11-86 as evidenced by copy of air freight bill enclosed.

On 2-22-86 I received a letter from SBA Atlanta dated 2-19-86 stating that as of that date they had orders an initual disb. check for $6900.00 and I should receive that check within 3 weeks.

I did receive my first check within that time structure. I am now awaiting the final check as of this date 4-9-86.

I would also like to state that I was told by the field office SBA on Williamson Road, in Roanoke that "I was the 1st person in this area to properly complete my papers." It was thru their help and advise that this was possible.

At no time during this process was any of my application papers incomplete or slow in being returned, nor did anyone request additional information or additional forms.

The only mention to any omission of any document was on this last disbursement sheet for final disbursement check requesting the recorded lein papers from The City of Salem Clerk of Court Office. I went to the clerks office and picked up the unmailed copies and mailed them to SBA Atlanta on 4-4-86. I have heard no additional information from SBA on final check.

I also had Ms. Candy Elliott, secretary for Rep. James Olin call SBA prior to receiving my first check to see why I had the delay. She talked to Mr. Darren Smith to find out what was going on with my loan. Ms. Elliott asked Mr. Smith if he had teletyped loan authorization as he had told me he would, he told Ms. Elliott he did not recall telling me he would do this. He indicated to her that I had fabricated instructions. It is my understanding that Mr. Smith was very rude to MS. Elliott for inquiring about this loan and told her not to call his office again with inquiries, but to use the congressional channels.

In closing let me add, I do appreciate having a Govermental Program to help in a disaster such as we had. I really do not know what I would have done had I not had this available. I do appreciate the efforts of some of the SBA people who sincerely try to answer your questions and try to help. I also understand there are alot of people in a more desperate situation than mine. I am not now, now was I at any time looking for a handout. I sincerely resent Mr. Smith indicating that I lied about his instructions. I didn't nor do I appreciate his attitude to Ms. Elliott. I am mostgrateful to Mr. Olin and his staff for their assistance.

If I can be of any further assistance I'd be most happy to help in any way I can. Perhaps it will help some others receive the aid they desperately need when they need it most! Quickly!

Sincerely,

William E. Robertson

(Attachments in Roanoke office and will be brought to Salem Hearing Friday.)

Appendix B--Additional Material From SBA
Re: Disaster Cases in Virginia

U.S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

JUL -3

Honorable Nicholas Mavroules
Chairman
Subcommittee on General Oversight
Committee on Small Business
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Enclosed for the record are all our comments on the cases identified in the testimony taken at Salem, Virginia and Lewisburg, West Virginia on April 11, 1986, and on certain letters supplied to us by the Subcommittee. Unless otherwise specified, the status of cases commented upon is as of June 6, 1986.

Thank you for the opportunity to make the comments.

Sincerely,

Bernard Kulik
Deputy Associate Administrator
for Disaster Assistance

Enclosures

SBA COMMENTS

AS OF JUNE 6, 1986

ON CASES MENTIONED IN HEARING TESTIMONY

STATE OF VIRGINIA

Robert W. Stone and Donna M. Stone
Poor Man's Pool and Spa, Inc.
Dane Construction, Inc.
Roanoke, Virginia

On December 4, 1985, the Small Business Administration (SBA) received an incomplete disaster home loan application from Mr. and Mrs. Stone. A deficiency notice was sent requesting the necessary information on the same day. At this time there was no indication that Mr. and Mrs. Stone would also be applying for business disaster assistance.

On December 7, an application for an SBA business disaster assistance loan was received for Dane Construction, Inc., and a deficiency letter was sent requesting information that is required for the processing of a business loan application.

Mrs. Stone's mother submitted an SBA business disaster assistance loan application for Poor Man's Pool and Spa, Inc. This application was returned on November 26, 1985, because it was so incomplete that processing could not even begin.

The application for Poor Man's Pool and Spa, Inc., was refiled with some additional information on December 3, 1985, and a deficiency letter, dated the same day, was sent requesting some of the same documents that had not been supplied with the original filing. This included the Resolution of Board of Directors and personal tax returns.

On January 11, 1986, the original processing loan officer spoke with Mrs. Stone and discussed possible loan amounts and terms for the home loan. Our loan officers are instructed to be extremely careful in these calls and not indicate that a loan has been approved. No loan can be approved or declined without a concurrence by a higher authority than the processing loan officer. After supervisory review, the loan was declined. Mrs. Stone was notified in a letter dated January 14, 1985, that the request had been declined for lack of repayment ability.

During a telephone conversation on January 17, 1986, it was learned that there were two companion business files related to Mr. and Mrs. Stone that were still pending. On January 18, 1986, the processing loan officer contacted Mrs. Stone informing her that her home loan file would be reconsidered and reprocessed as the financial information derived from Poor Man's Pool and Spa, Inc., and Dane Construction, Inc., would have an affect in determining the Stones' repayment ability.

The Stones were notified in letters dated February 14, 1986, that the disaster assistance loans for Poor Man's Pool and Spa, Inc., Dane Construction, Inc., and their personal residence were approved. The Loan Authorization and Agreements for Mr. and Mrs. Stone and Poor Man's Pool and Spa, Inc., were mailed on February 22, 1986, followed by the Loan Authorization and Agreement for Dane Construction, Inc., on February 24. The loan closing documents for the Stones, Poor Man's Pool and Spa, Inc., and Dane Construction, Inc., were mailed on March 12, 13, and 26 respectively. An instruction sheet was attached to each document to assist in their preparation.

On April 16, 1986, a full disbursement of $5,300 was express mailed to Dane Construction, Inc. Mr. and Mrs. Stone were express mailed an initial disbursement of $8,000 on April 28, and on April 29, an initial disbursement of $10,000 was mailed to Poor Man's Pool and Spa, Inc.

Our goal is to have 90 percent of the loan applications processed to a final decision of approval or decline within 60 days from the date of filing a complete application. As disbursing money requires the applicant to complete and return the loan closing documents, it cannot be predicted when an applicant will receive a check; however, when SBA has received the necessary documents to make an initial disbursement, normal procedure is to order the check sent directly to the borrower. We do not know who told Mr. Stone at the disaster application center (DAC) that his loan would be approved and he would have his money within 60 days. Our employees are instructed to be very careful about what they say about results of loan requests and timing. It should also be noted that many people at the DAC talked only to Federal Emergency Management Agency (FEMA) registrars and not SBA personnel.

As there are two corporations involved, a Resolution of Board of Directors is required for each. Although the file for Poor Man's Pool and Spa, Inc., does contain two forms for Resolution of Board of Directors, one is substantially incomplete. Also, the Resolution of Board of Directors of Dane Construction, Inc. was originally returned with the deficiency letter for signature.

Upon receiving a completed application, SBA construction analysts, who are knowledgeable in the repair/replacement costs of disaster damaged property, determine the necessary costs involved in returning the property to a pre-disaster state. Mr. and Mrs. Stone have been allocated $200 to repair the driveway to their home and $1,700 has been allocated to Poor Man's Pool and Spa, Inc., to repair the same driveway, as the business operates from their residence. This gives them a total of $1,900 to repair the driveway, plus an additional $1,500 allocated to Poor Man's Pool and Spa, Inc., to repair the landscaping. These amounts are based on the construction analyst's report of repair costs.

Charles Cole
D/B/A Overhead Door Company of Roanoke
Roanoke, Virginia

Mr. Cole's testimony corresponds with the information in the loan case file.

Mr. Cole's original Small Business Administration (SBA) verification of February 5, 1986, verified physical damage to Overhead Door Company of Roanoke of $26,956. The loan officer recommended the loan amount to be $27,000 according to the verified loss. During a February 28, 1986, telephone conversation with the loan officer, Mr. Cole stated that he was dissatisfied with the amount of the loan but that he would accept it and the terms.

An SBA representative met with Mr. Cole in Roanoke on April 9. As a result of this meeting, the amount and terms of Mr. Cole's loan were reconsidered. On April 30, Mr. Cole's damages were reverified and increased. A subsequent new credit analysis resulted in increasing the loan to $53,000, reducing the interest rate and increasing the term. Disbursement is now in process.

William M. Mullins
Colonial Landscaping Co., Inc.
D/B/A Virginia Grounds Systems
Roanoke, Virginia

Mr. Mullins incomplete application for a business disaster assistance loan was received on January 8, 1986, and a deficiency letter was sent on January 21, 1986, requesting information necessary for processing. By letter dated March 10, Mr. Mullins was advised that the application for a business disaster assistance loan was declined due to the lack of reasonable assurance of the applicant's ability to repay the proposed loan and other obligations from earnings, a disproportion of debts to tangible net worth, and inadequate working capital available with the approval of a loan, to sustain operations. The March 10 letter also informed Mr. Mullins of the right to a reconsideration.

By letter dated April 17, 1986, Mr. Mullins requested reconsideration. The loan was approved on reconsideration and Mr. Mullins was notified by letter dated April 24, 1986.

Mr. Mullins states in his testimony that his major problem is with the time element. The goal of the Small Business Administration disaster assistance program is to have 90 percent of completed loan applications processed to a point of approval or decline within 60 days. Mr. Mullins original decision was reached within this timeframe.

Mr. Mullins stated that he was told that he had to buy new equipment rather than repair his existing equipment. If he was told this, it was incorrect. Disaster loans may be used to repair or replace damaged property and usually adequate repairs are preferable to replacement.

Joseph C. LaRocco
Salem, Virginia

Collateral is required for all loans in excess of $5,000. While these loans are made at subsidized interest rates to disaster victims, the Federal government must act as a reasonable and prudent lender to take safeguards to ensure repayment. Collateral requirements are standard practice in both the public and private sector. Although the Small Business Administration's (SBA) regulations provide that a loan will not be declined for lack of a fixed amount of collateral, applicants are required to pledge available collateral and refusal to do so may be a reason for declining a loan. It is noted that the applicant's commercial loan for less money at a higher interest rate also required collateral. In this regard, the prior lienholders agreement simply asks the prior lienholder to notify SBA in the event of foreclosure, an obvious security measure for the protection of our collateral.

Tax returns are required as the easiest method of establishing repayment ability They show income and any unusual expenditures. However, when they are not available, alternative methods of establishing income are permissible. The instruction sheet on the application advises applicants to contact SBA if tax returns are not available. In most cases, W-2 forms and a letter from the applicant's employer is sufficient. In the absence of any specific problem which would require the tax returns, any contrary advice Mr. LaRocco received was incorrect.

The flood insurance requirement is set forth in the fact sheet that accompanies all SBA loan applications, in the letter advising applicant of the approval of his loan and in the loan authorization and agreement. It is required, by law, for all loans where the property is in a special flood hazard area (SFHA). This is determined by Federal Emergency Management Agency (FEMA) map readers in the disaster application centers. If it can be established that the property is not in an SFHA, the applicant may request that we delete the requirement. Presumably that was the reason for advising Mr. LaRocco to get a letter from his insurance agent.

Also, Mr. LaRocco would be allowed to use SBA loan funds to reimburse himself for repairs which were completed and paid for prior to receiving SBA loan funds. He was correctly told to keep receipts and begin making repairs if he so chose, so as not to delay the clean up process. The problem arose in Mr. LaRocco's misinterpretation of information regarding allowable usage of loan funds. He would not be allowed to pay himself a salary for any work which he completed himself. It is not clear from the testimony how this misinterpretation arose.

The building permit requirement protects both the borrower and SBA by assuring that the work being done and complies with established building codes and safety and other standards. It is perfectly acceptable for the borrower to apply for the building permit himself. He need not rely on the contractor to do this. Building permits are required before disbursement can be made on the real estate portion of the loan.

Mr. LaRocco also mentioned duplicate requests for certain documents. This is not our standard procedure and resulted from the failure to match incoming mail with proper case files in a timely fashion due to the voluminous amount of information that was arriving in the disaster office daily. This problem should not have occurred and hopefully will not recur in the future.

Lucia Craighead
Salem, Virginia

Mr. and Mrs. Willard Craighead initially received a Small Business Administration (SBA) application on November 13, 1985. Their application was received by SBA on November 20. On January 2, an on-site inspection was completed of the disaster related damage. Construction analysts are instructed not to express an opinion of whether a loan will be approved because this is not their area of expertise, and at the time a verification is made, no financial or credit analysis has been made. It should be noted that while an on-site verification may take a relatively short time, they are not "guesses," the bulk of their reports are completed later using price guidelines or builder's estimates.

The file was then forwarded to Atlanta for processing. The Craigheads were notified of their approval in SBA's cover letter dated January 29. The Loan Authorization and Agreement were mailed under this cover letter.

On February 10, the loan closing documents were mailed to the Craigheads, which they returned on March 5, to SBA. The first check was sent on April 1. On May 8, a second disbursement was ordered.

By law, disaster loan recipients who are located in a special flood hazard area are required to purchase and maintain flood insurance. The amount required is the insurable value of the property or the maximum coverage available, whichever is less. The applicants did provide the needed flood insurance and asking for it to be increased after it had been submitted to SBA was an error on our part.

The purpose of the disaster loan program is to help victims to return to their pre-disaster condition. Generally, upgrading is not permitted. However, within reasonable limits, it is possible to use the proceeds in alternate manners and it is also possible to increase the amount of loan proceeds if it is determined upon re-verification of the damage that this is justified. These requests must be made in writing. The Craigheads have made such a request which has been approved and is reflected in a modification to their Loan Agreement and Authorization.

Ms. Craighead refers to having to obtain an attorney although she was told by SBA that they were not required. Loans in excess of $15,000 require a title search. While the SBA does not require retention of an attorney to do this, varying state laws may.

Harry Lynwood Craig
Staunton, Virginia

Mr. Craig received a disaster home loan application in the Augusta County Disaster Application Center (DAC) on November 23, 1985. During the initial interview with a Federal Emergency Management Agency (FEMA) registrar it was determined that Mr. Craig should be issued a Small Business Administration (SBA) application based on the income information he provided. Once a home loan application was issued by the registrar, SBA did not at that time interview all disaster victim. SBA could have no contact with disaster victims until an SBA disaster loan application was filed (this practice has since been changed). FEMA representatives are instructed not to give any information on SBA response times as these times are dependent upon receipt of a complete application and other factors. It appears that Mr. Craig may not have spoken to an SBA representative.

SBA received Mr. Craig's incomplete application on December 4 and an SBA construction analyst made an on-site inspection of the disaster damaged property on December 28. Our representatives are instructed not to give any indication of eligibility for loans or of specific timeframes to applicants as it may vary from case to case and at the time of the verification no financial analyses have been made.

The loan officer contacted the Craigs with questions about their tax returns because the wages for Mrs. Craig on the tax returns did not correlate with the income she reported on the SBA application form. This required an explanation from Mrs. Craig and a phone call to her present employer verifying her current wages.

The Craigs' total verified loss was $117,041, including an automobile that was covered by insurance and $25,000 for landscaping. Because we only cover uninsured losses and we have a limit on landscaping of $1,000 or 25 percent of the total real estate damage not to exceed $2,500, the appropriate figures were deducted from the Craigs' total eligibility to determine the rounded loan amount of $84,100. On February 25, Mr. Craig's SBA disaster assistance home loan was approved for $84,100 at 4 percent interest for 28 years.

The loan officers make recommendations on loan request. Approval does not occur until a supervisory loan officer reviews the file and agrees with the loan officer's recommendation. When it appears that the loan officer will recommend approval, a phone call is made to the applicant to discuss possible terms, collateral, etc. Loan officers are instructed to take care not to leave the impression that a loan is or will be approved.

Our loans are made on the basis that the applicant has sufficient income to repay the loan. A cash flow analysis based on the information submitted by the Craigs revealed sufficient disposable income after fixed debt and living expenses to service a loan with a 28-year maturity. Mrs. Craig never stated that they could not afford this payment when the loan officer discussed it with her in February, or indicated that they were having problems meeting their present obligations. The Craigs' credit bureau report had no information indicating any credit problems. Mr. and Mrs. Craigs' Marriage Certificate was requested because the copy of the deed they provided was in Mr. Craig's name and Mrs. Craig's maiden name. All name discrepancies have to be resolved for drafting of the loan closing documents. The marriage certificate usually is the most appropriate document available. The Craig's Loan Authorization and Agreement clearly states that the only collateral we are requiring is a Deed of Trust/ Mortgage on real estate located at Route 1, Box 850, Churchville, Virginia (the damaged property) and our mortgage will be subject only to the existing first lien.

On April 30 we received a letter from the Craigs requesting refinancing of existing liens and waiver of certain loan conditions. On May 29, 1986, we agreed to the refinancing, increased the loan, and made changes in appropriate loan conditions. On June 6, 1986, a disbursement of $50,000 was ordered.

Steve Seymour
Roanoke Valley Mental Health Services
Roanoke, Virginia

We do not agree with Mr. Seymour's belief that our home loan application form is too complicated for the average person. We have supplied a copy of the package with respect to other comments herein (see comments to testimony of Fred Burns, Jr., West Virginia). It calls for information that any reasonable and prudent lender that is unfamiliar with the financial circumstances of the applicant would require, and certain other matters required by various laws. We have and will continue to review and update our forms and procedures to make them easier to complete and quicker to process within the mandates of the Small Business Act and other governing legislation.

Mr. Seymour gave a specific example of a couple who were both mentally and physically retarded. Applicants who visit disaster application centers (DAC) are interviewed by Federal Emergency Management Agency (FEMA) registrars to determine which of the available assistance programs are appropriate for them. At the time of this disaster, Small Business Administration (SBA) home loan applications were distributed by the registrars. There was no requirement that potential applicants meet with SBA representatives. FEMA funds various nonprofit service organizations to assist victims, including the Roanoke Valley Mental Health Services. Had the registrar become aware of the problem, the couple would have been referred to a funded or voluntary organization for assistance in completing the application.

Applications for home loans are given out by registrars based on the information which the applicant supplies at the DAC concerning the amount of damage, income, financial resources, fixed debts and living expenses. If it becomes apparent that repayment ability for a loan is not present, the victim is referred to SBA in the DAC and a summary decline and referral to the grant program is issued right there. In fact, over 1,800 summary declines were issued in Virginia in this disaster.

Loan requests frequently differ from loan eligibility. In most cases, requests are based on estimates by applicants and do not consider possible insurance recovery, the statutory ban on upgrading, and SBA's regulatory limits in areas such as landscaping, etc. For these reasons, the damage incurred by each applicant is verified by an SBA construction analyst, on site. All verifications are made with either the applicant or his/her representative present. Construction analysts are instructed to discuss any major items where their estimate is substantially different from the applicant's. In addition, when the loan officer contacts an applicant to discuss possible loan terms, substantial differences in amounts can and should be discussed. Any professional repair or replacement estimates that are included in the application are given great weight.

Applications are approved after an analysis of the damage, eligibility, other recovery sources, income, fixed debt, living expenses, and related matters supplied by the applicant and his representatives in the application. Each case presents a unique set of facts and each case is handled on its own merits. It is entirely possible that a family with a combined income of $27,000 could be declined for a loan based on lack of reasonable ability to repay the loan. It should also be noted that there are many other reasons for declining loans; e.g., failure to maintain required flood insurance, poor credit records, lack of good character, etc. Without more facts about either of the cases mentioned by Mr. Seymour, it is impossible to determine the reason for one approval and one decline.

Mr. Seymour's suggestion of giving grants up front in a disaster to be recovered from the proceeds of a loan if one should later be granted covers matters outside of SBA's jurisdiction and should be made to FEMA. It should be noted, however, that FEMA's procedure requires an SBA decline as a condition for grant eligibility. Under the law, there is no way to force a victim to file for an SBA loan or even to accept one if it is offered. Therefore, this suggestion may present practical as well as legal and financial problems.

Addison E. Slayton, Jr.
Virginia Department of Emergency Services

We do not agree with Mr. Slayton's statement that routine Small Business Administration (SBA) denials are taking too long. When an applicant is interviewed by the Federal Emergency Management Agency (FEMA) registrars in a disaster application center (DAC), certain basic information about their damage, income, fixed debt and living expenses are ascertained. If it appears that there is no repayment ability, the victims are referred to SBA representatives and an immediate summary decline can be issued. In this disaster in Virginia, over 1,800 summary declines with immediate referrals to the grant program were made in DACs. It should be noted that after DACs close, SBA is present in the FEMA Disaster Field Office (DFO) or nearby for at least as long as there is a DFO. Possible summary decline cases are continually referred to SBA by FEMA as the result of hotline calls and walk-ins and are handled by telephone or in person in the same summary decline fashion as in the DAC. This procedure was followed in the Virginia disaster. Without more detail, we do not understand the basis for Mr. Slayton's concern.

Loan applications are issued only where it is not apparent that a loan cannot be repaid. The speed with which disaster loan applications are processed depends on many factors including when they are filed, how complete they are when filed, etc. Applications are handled on a first come, first served basis and it is impossible to predict, upon filing, which cases will most probably be declined. Our statistics indicate that over 72 percent of the home loan applications filed in Virginia were approved.

Mr. Slayton stated that as of the end of March there were 280 cases (loan requests) which SBA had not acted upon. In fact, as of March 28, 1986, there were 197 applications pending of which 44 were reconsideration requests. Of the 197 applications pending, only 73 were home loans which could involve grants.

Mr. Slayton stated that in 30 cases there was a duplication of benefits between SBA and the grant program and questioned who would recover the duplication. The specific situations mentioned were those instances where SBA declines a loan, the applicant applied for and received a grant, the applicant requested reconsideration of the decline by SBA and, based on additional information submitted, SBA later approved the loan. Perhaps Mr. Slayton is unaware that procedures exist to handle this specific problem area. When SBA approves any loan after a decline, a status request is made to the grant program by phone. This is followed by a written "duplication of benefits" (DOB) form which is sent to the grant program upon approval but before any payments have been made. If either the telephone call or the DOB form elicit a response that a grant has been made, the loan authorization and agreement is written to require a repayment of the appropriate grant amount to the grant program. In fact, a check, jointly payable to the grant program and the borrower, is issued by SBA after the loan closing documents have been returned by the borrower.

As a follow up to Mr. Slayton's testimony, SBA asked FEMA to supply a list of the 30 cases where duplication of benefits may have occurred under these circumstances. FEMA supplied a list of 10 cases and 8 of them were reviewed. In each of these 8 cases the above procedure worked properly and joint payee checks were issued when the loan closing papers were returned by the applicants. Two cases had been fully disbursed and the files already sent to the servicing office. Because these cases involved possible duplication of only $200 and $1,000 respectively, the files were not recalled and reviewed.

Mr. Slayton recommended that SBA let banks handle business loans so that SBA could provide better service to individual applicants. SBA now encourages businesses to seek financial assistance for physical damage from banks and encourages banks to make such assistance available. There are procedures in place to provide to the bank a guaranty of up to 90 percent of the loan. No recent use has been made of this guaranty program, perhaps because the statutory interest rates (maximum of 4 or 8 percent) and terms are unattractive to banks at this time.

Mr. Slayton also recommended computerizing the paperflow between SBA and the grant program. FEMA has been working on this project for some time.

SBA COMMENTS

AS OF JUNE 6, 1986

ON CASES MENTIONED IN LETTERS SUPPLIED BY SUBCOMMITTEE

STATE OF VIRGINIA

Mark E. Barber Jr.
Roanoke, Virginia

The Barbers have many problems, both financial and personal, which were only intensified by the November flood. The Barbers' Small Business Administration (SBA) disaster assistance home loan was approved on December 31, 1985, in the amount of $6,900 at an interest rate of 4 percent. As required of all borrowers whose loan amounts exceed $5,000, a lien was to be taken on the property for the term of the loan as collateral. The loan approval was also subject to Mr. Barber's ex-wife signing a waiver of any eligibility she might have for SBA disaster assistance because her name is still listed on the deed to the property. As was stated by the Barbers, she would not comply with this request. Further complications arose with the Barbers' filing of bankruptcy on March 17. Due to this adverse financial change, the loan was cancelled on April 8 and as requested, the Barbers were referred to the Individual and Family Grant Program for possible assistance.

Mr. and Mrs. Lyttleton Bowers
Covington, Virginia

Based on financial information which they supplied, the applicants received a summary decline at the disaster application center (DAC) and subsequently a grant for $5,000. In addition to this, furniture from the Red Cross and an additional sum from the Federal Emergency Management Agency (FEMA) were received by the applicants.

The applicants submitted a letter dated April 17, 1986, requesting reconsideration of their loan and possible return of the grant which would be required. An application was mailed on April 18 to the applicants. On May 5, 1986, the applicants were contacted to assure they had received the application and ascertain whether they indeed desired to reapply. Mrs. Bowers indicated that they had decided not to reapply for a loan. They had considered a loan for $10,000 from which they would have had to repay the $5,000 to IFG. They now feel that action would not be beneficial to their situation.

William L. Conner
Buchanan, Virginia

When closing a loan to purchase a mobile home, the applicant is sent certain loan closing documents which must be returned with information about the mobile home to be purchased in order for the Small Business Administration (SBA) to complete and send to the applicant the additional papers necessary to have a lien on the mobile home. In this case, Mr. Conner returned the first documents and supplied the necessary information. However, SBA erred in not mailing the follow-up loan closing documents until April 9. To prevent further delays, a check for $35,500 for the mobile home was sent to Mr. Conner's escrow agent to be released when Mr. Conner completed the follow-up loan closing documents. The loan has now been fully disbursed.

Gene O. Curbow
D/B/A CENCO
Roanoke, Virginia

Mr. Curbow received disaster loan applications at the Disaster Assistance Center (DAC) in Salem, Virginia on November 14, 1986.

Mr. Curbow's incomplete disaster home loan application was received by the Small Business Administration (SBA) in Roanoke on December 16. A letter, dated December 16 was sent to Mr. Curbow requesting a copy of the deed to the damaged property.

An on-site inspection of the damaged residence was performed by SBA on December 31. A decision was not made on Mr. Curbow's loan on the same day that his damaged property was inspected. The file was forwarded to the Atlanta office on January 3, and assigned to a loan officer on January 4. SBA informed Mr. Curbow in a letter dated January 6 that his loan had been declined due to inability to repay the proposed loan. Our financial analysis, utilizing 1984 personal tax returns as well as debt and living expense information provided by Mr. Curbow, indicated his monthly income was insufficient to cover his fixed debt obligations and estimated living expenses. While SBA is a flexible lender, these are loans and they cannot be made unless there is a determination that there is a reasonable ability to repay the loan.

Mr. Curbow represented his income to the Federal Emergency Management Agency (FEMA) registrar in the DAC at a level which he has been unable to document. Had FEMA been given a different, lower picture of the Curbows' income initially, he would have been immediately referred to SBA in the DAC for a summary decline on his SBA loan. This would have allowed Mr. Curbow to apply for assistance from the grant program immediately instead of being referred to the grant program by SBA's decline letter of January 6. It is SBA's understanding that Mr. Curbow subsequently received a grant.

On January 21, SBA received a request for reconsideration of the decline on Mr. Curbow's home loan. His application was accepted for reconsideration on January 22 based on a telephone conversation with Mr. Curbow in which he stated that in addition to his wife's income, his business made a substantial profit in 1985 which he could document. On February 14, Mr. Curbow was sent a letter requesting documentation of the additional income he had referred to in telephone conversations with the loan officer on February 4 and February 14. The letter stated that the application would be withdrawn if the information was not received in 14 days. On February 25, Mr. Curbow told the loan officer handling his application that he wanted it withdrawn. By letter dated February 26, Mr. Curbow was informed of the withdrawal.

Mr. Curbow received a SBA disaster business loan application when he visited the DAC in Salem, Virginia on November 14, 1985. This incomplete application was received by SBA on January 10, the filing deadline, and a deficiency letter dated January 11, 1986, was sent to Mr. Curbow requesting the 1982 business tax returns. These were never submitted.

An on-site inspection of the disaster damage was performed in the presence of the applicant on February 3 and the file was then forwarded for financial analysis.

Based on the 1983 and 1984 Federal tax returns it was determined that earnings would not service existing debt and the proposed SBA loan which was therefore declined for lack of assurance of a reasonable ability to repay. Mr. Curbow was so notified by letter dated March 19.

By letter dated April 1, Mr. Curbow requested reconsideration of the decline. However, his letter did not contain the basic information necessary for reconsideration (significant new information to overcome the reasons for decline) and current financial statements, as specified in the decline letter of March 19.

Mr. Curbow was informed by letter dated May 9 that his reconsideration request on his disaster business loan application had been denied. The letter states that he must substantiate his increased business earnings in the form of complete copies of 1985 Federal tax returns. The tax returns would also document the increase in his wife's earnings. In addition, because he questioned our analysis of his cash flow, Mr. Curbow was informed that he should submit a listing of all debt obligations and all depreciable assets, showing depreciation expenses.

The purpose of SBA's disaster loan program is to assist disaster victims through low interest loans, with flexible terms as dictated in each case, to achieve restoration of their homes and businesses. The program does not require applicants to be millionaires in order to qualify for a loan. The vast majority of SBA's loan recipients are of middle to low income ranges. Currently, truly wealthy individuals seldom seek or accept SBA disaster loans because as a general rule they fall into an 8 percent loan rate, and in the case of business loans, a 3 year maturity period. As a result, most very wealthy people find the injection of personal funds or those from other sources more desirable.

J.M.F., Inc.
James M. Foley, President
Salem, Virginia

J.M.F., Inc.'s, complete disaster business loan application was received on January 23. On February 10, after a financial analysis based on the information submitted by the applicant, the business was declined for the lack of ability to repay the proposed loan and other obligations from earnings and also for a lack of assurance that the applicant would comply with the loan terms as evidenced by a credit bureau report. It should be noted that the Small Business Administration's (SBA) ability to refinance pre-existing debt is limited by statute. The applicant's request was not eligible within the statute.

Our February 12 letter to Mr. Foley outlined the above reasons for decline and stated that reconsideration of the decision could be requested within 6 months from the date of the letter.

As of June 13, 1986, Mr. Foley has not requested reconsideration of his declined loan.

Mrs. Thelma Jones
Covington, Virginia

Mr. and Mrs. Jones had flood insurance at the time of the November 1985 flood. The Small Business Administration (SBA) disaster assistance loan program lends money for uninsured losses. The Joneses' insurance recovery was $35,000 for the dwelling and $7,800 for the contents, totalling $42,800. After conducting an on-site inspection of the damaged property, the SBA construction analyst determined the Joneses' loss to be $31,755 for the dwelling and $5,810 for the contents, totalling $37,565. Therefore the insurance recovery exceed the SBA verified loss.

When a mandatory mortgage payoff occurs, the SBA considers this an uninsured loss. According to the Joneses' application, they had liens against this property totalling approximately $9,155. When the bank was contacted on January 14, 1986 by the SBA loan officer, we were informed that the mortgage did not require that it be paid off. The balance on the Joneses' SBA loan was approximately $629. When a deduction of this amount is taken from the insurance proceeds, the insurance recovery still exceeds the SBA verified loss. As a result of a review of this case, reverification will be made to determine if the actual damage and the eligible loan amount does in fact exceed the insurance recovery.

Carolyn S. McCormack
Covington, Virginia

The loan officer originally considered making loan for the damage amount verified by a Small Business Administration (SBA) construction analyst. Based on this verification, SBA determined that $9,800 was required to make the necessary repairs to return the house and personal property to a pre-disaster position.

When informed by Ms. McCormack that she only wished to borrow $4,000, the loan amount was reduced and Ms. McCormack was informed of the terms. The Loan Authorization and Agreement and loan closing documents were mailed to Ms. McCormack on January 24, 1986. The unsigned documents as well as a letter dated March 17 that requested full cancellation of her loan was received in this office on March 19, 1986. The loan was cancelled in its entirety on March 28, 1986.

SBA regrets any interpretation of rudeness on the loan officer's part by Ms. McCormack. Sometimes in an attempt to gather information for a file as expeditiously as possible behavior can be interpreted as uncaring and curt. The loan officer has been advised of Ms. McCormack's complaints and apologizes that his attitude was interpreted in this manner.

Melvin and Nellie Moxley
Glasgow, Virginia

Mr. Moxley's incomplete application was received by the Small Business Administration (SBA) on November 23, 1985. A deficiency notice for the missing items including the deed to the real estate, was sent on November 25, 1985. The initial applicant was Mr. Moxley, only. Upon receipt of the deed to the damaged property, it was discovered that the real estate was held jointly with his wife Nellie Moxley. Because of this, it was necessary to request additional information on Nellie Moxley since she is a co-owner.

SBA attempted to contact the Moxleys by telephone but the number which they had given was no longer in service. The Moxleys did not notify SBA of their move or new telephone number.

On February 19 a second letter was sent to the Moxleys' last known address requesting that Mrs. Moxley complete and sign the application and SBA Form 1261. This material was received by SBA on February 26.

The loan was approved on March 18, 1986. On April 7, 1986, the Moxleys informed us of their relocation plans which were agreed to on April 25. Sufficient loan closing papers have been received and a disbursement of $22,300 was ordered on June 12, 1986.

Allene S. Rice
Glasgow, Virginia

Ms. Rice received an disaster assistance loan application on November 15, 1985, while at the disaster application center (DAC). She submitted her incomplete application on November 27 and on the 29th, the Small Business Administration (SBA) sent a letter to Ms. Rice requesting current income verification as evidenced by Federal tax returns, or, if nontaxable income, copies of award(s) letter(s) stating benefits received. A letter, dated December 6, was received verifying Ms. Rice's Railroad Retirement benefits and her file was accepted for processing on December 12. An on-site inspection of the damaged property was conducted on December 21. As Ms. Rice was not present, a follow-up telephone call was made to her to discuss her losses. Pursuant to financial analysis and evaluation, a loan officer contacted Ms. Rice on January 8, 1986, to discuss her loan request in conjunction with her financial situation and possible loan terms.

Ms. Rice's loan was approved and her Loan Authorization and Agreement drafted on January 27 in the amount of $39,000. At the time the Loan Authorization was mailed to her, SBA requested necessary information on the proposed mobile home which Ms. Rice intended to purchase. On February 24, SBA received a letter from Ms. Rice requesting that she be allowed to relocate from the damaged property to another location out of the flood plain, that she be allowed to purchase a modular home, and that her use of loan proceeds be amended accordingly, including allocating the unused portion of the loan funds to repair/replace her personal property. A copy of the proposed purchase contract, dated March 5, was received by this office thereafter. After receipt of this contract, the requests were analyzed and determined to be appropriate and were discussed with Ms. Rice. On March 31 a letter was sent to advise of the requested changes and to serve as an amendment to the Loan Authorization.

The required loan closing documents, which were drafted after the above amendments were made, were express mailed on April 15. On May 20 a disbursement of $4,800 was sent to Ms. Rice. On June 6, after receiving necessary information, checks for $35,000 were sent to her attorney for escrow closing on the new residence.

SBA regrets the communication problems Ms. Rice encountered. Expansion of the office during the period involved caused many communications difficulties. We have since made changes to improve communications with disaster victims and now have a loan processing status telephone line to answer questions about loans being processed before approval and a legal status telephone line to answer questions about approved loans and the legal documentation.

William E. Robertson
Salem, Virginia

Mr. Robertson initially received his disaster home loan application November 13, 1985, from the disaster application center (DAC).

The Small Business Administration (SBA) received his incomplete application on November 19 and an on-site damage verification was made by SBA on December 1. SBA requested additional information on December 19 pertaining to the amount of insurance settlement received, because these benefits may not be duplicated by SBA loan proceeds. This information was provided by Mr. Robertson. The loan was approved January 13.

On January 24, the Loan Authorization and Agreement documents were mailed to Mr. Robertson. On February 4, the loan closing documents were mailed. They were returned by overnight mail on February 11, and the initial disbursement in the amount of $6,900 was ordered on February 19.

By letter dated March 12, Mr. and Mrs. Robertson were notified that additional disbursement could be made when they provided the original recorded Mortgage or Deed of Trust to SBA and paid receipts, invoices or cancelled checks totalling $6,900, the amount already disbursed.

These receipts were received on April 11 and final disbursement in the amount of $2,000 was ordered on April 17. Mr. Robertson was notified by letter dated April 17 that the check had been ordered directly to him from the U.S. Treasury and that it should be received in two to three weeks.

It is extremely unfortunate that Mr. Robertson had such an unpleasant encounter with Mr. Darren Smith. Because Mr. Smith is no longer employed by the SBA, it is difficult to respond to the allegation that Mr. Smith was very rude to Ms. Elliot. SBA personnel have been repeatedly instructed that they are to be courteous and as helpful as possible to applicants and their representatives. Rudeness is not an accepted practice.

Robert A. VanLear
Bethany B. VanLear
Clifton Forge, Virginia

Mr. VanLear was pleased with specific personal service from personnel within the Small Business Administration (SBA). Mr. VanLear applied on November 27, 1985, and was approved on February 7, 1986. The borrower received an initial disbursement of $5,000 on March 15, 1986. Borrower requested permission to construct a permanent dwelling rather than a mobile home which was processed and granted on April 30, 1986. On May 14 a further disbursement of $10,000 was ordered. Borrower was notified in writing on May 15 and June 11 that further disbursements can not be made until the balance of the loan closing documents are returned.

Calvin H. Williams
Salem, Virginia

Mr. Williams feels that the verified damage amount was not high enough to cover the cost of repairing his damaged property. Small Business Administration (SBA) construction analysts, by experience and background, are trained to observe the extent of damage caused by the disaster and estimate the cost of repairing, using a guide which provides them with the current market prices in the construction industry for the area involved. However, if an applicant feels strongly that the analyst has underestimated the damage, the applicant can request reverification and another analyst will make an independent on-site inspection of the property.

The SBA, as a prudent lender of government funds, protects the interests of the government by requiring collateral for loans over $5,000. Although no loan will be declined solely because of a lack of collateral, whatever collateral is available must be pledged. In most home loans, the primary collateral available is the equity in the damaged residence, usually in the form of a second mortgage. The collateral requirement is contained in the Agency's regulations and is a standard Agency procedure.

Mr. Williams also states that many people with well paying jobs have received grants. The grant program is partially funded by the Federal Emergency Management Agency (FEMA) and is administered by the various states. SBA's only involvement in this program is to refer to it all applicants whose loan requests are declined because the financial information they supplied to SBA indicates they cannot repay a loan.

World Travel Service
Roanoke, Virginia

On January 2, 1986, the Small Business Administration (SBA) received a disaster business loan request from World Travel Service. The loan was approved on February 20 and the Loan Authorization and Agreement was mailed to the applicant on March 4, 1986.

On March 31, 1986, the applicant requested an extension of the loan terms from twelve years to twenty years thereby reducing the payments, and an extension to three months to allow the applicant to return the closing documents. This was granted on April 17, 1986. The loan authorization has been signed and returned but the other loan closing documents have not yet been returned.

Appendix C--Letter From Disaster Victim and Follow-Up From SBA

April 3rd, 1986

Rep. James Olin
1207 Longworth House Office Building
Washington, D. C. 20605

Dear Rep. Olin:

My mother, Allene S. Rice and myself, Mary Lee Rice, were in the flood in November of '85. This was the third time being flooded.

On December 23rd, the man from SBA called and told us he had inspected the house and said the house had shifted and was 80% damaged. We asked him about relocating and he thought it would be a good idea.

In January, a lady called from Atlanta with SBA and to tell mama that a loan of $39,800.00, as been approved, the cost of repairing our damaged home. Mama also asked her about relocating, and she agreed that it would be a good idea and that she saw no reason that we couldn't relocate.

Our question we wanted answered with SBA was, could we use this money to relocate out of the flood area with a Mod-U-Kraf home?

In talking with her, mama asked about the double wide mobile trailer homes, she hadn't starting looking until she knew for sure that SBA would agree to her relocating.

When mama and I starting looking into the different types, we looked at the double-wide mobile homes, Continental homes and the Mod-U-Kraf homes. After looking a great deal about how they were made and the cost, we found we liked the Mod-U-Kraf type homes. The mobile homes had warnings posted about some of the materials, so this turned my mother off immediately. The Mod-U-Kraf homes do not depreciate like the mobile homes and they are made like you were building a home from scratch. They do come in two sections.

In January, she received a postcard saying we ould be receiving papers. In February, she received papers to fill out for a mobile home and contract for the loan. We had decided to go with the Mod-U-Kraf home so when we got the papers mama and I both called SBA to see if she could go this way,and if so, to find out if we needed different forms other than the forms for the mobile home.

This is when we really starting calling to find out this information.

Everytime we called, there was no one who could answer our questions. They said they would have someone call, we waited, no one called so we called again, still no one to talk to, told us the same thing. Called again and again, same thing. Finally, a lady did call (2 weeks went by) as soon as mama starting talking, the lady had to answer another call and she put mama on hold for 8 minutes, when she returned, she told mama to write a letter, as she couldn't help her. Mama did write a letter explaining everything in detail. After writing, she waited, heard nothing, so after 1 little over a week, she called again, no one to talk to. Called again, no luck this time either. I even called the SBA office in Richmond, Va. in hopes someone there could help and maybe answer our questions. She said she couldn't help, had to call Atlanta (she was very rude). I was hoping maybe they could call Atlanta for me.

I work at Natural Bridge Hotel and I meet a lot of people, so I talked with someone who knew one of the officials with the SBA office in Richmond. He said he would talk to him, which he did, and as soon as this gentleman left the SBA office, SBA called from Richmond. They in turned called Atlanta and the man with SBA called us back from Richmond and said she would have top priority. This was March 5th, 1986.

Also, may sister as a friend in your office and she has been trying to help mama by calling Atlanta to get the information she needed. She's the one that told her that SBA said to use the same papers (she got through to someone). Imagine the cost and time of the phone calls that have been made with little success.

A gentleman with SBA, called me concering my SBA loan for my personal loss that I had appled for but unable to repay. While I had him on the phone, I talked with him concerning my mother's loan. He called back after he called across the street with 15 minutes. He has called twice since, saying he would go across the street and wee what he could find out. He called on Monday, March 30th, 1986, saying the balance of her loan he had approved to buy furniture with and that she should be receiving some papers in the mail soon. This man is the only person that has made any attempt to help on mama's loan in the office in Atlanta.

My opinion, SBA doesn't seem to have anyone to answer quesions that are related to the people's need. It's a shame that a higher official could get through and not someone like my mother or myself. They need more experienced employees with the knowledge of disaster problems and needs, then just an answering service of very rude persons.

I hope this letter helps in some way and as of this date, she has not received any money and this matter is still not resolved.

Sincerely,

Mary Lee Rice

Mary Lee Rice
P. O. Box 246
Glasgow, Virginia 24555

SBA

U.S. Small Business Administration
Disaster Assistance - Area 2
75 Spring Street. S.W.. Suite 822
Atlanta. Georgia 30303

(FTS) 242-5822
(404) 331-5822

April 23, 1986

Honorable Nicholas Mavroules
House of Representatives
Washington, D.C. 20515

Dear Congressman Mavroules:

Pursuant to our conversation on April 11, 1986 in Virginia, I am providing the following status update on Allene S. Rice of Glasgow, Virginia.

Ms. Rice received a SBA Disaster Assistance Loan Application on November 15, 1985 while at the Disaster Application Center. She submitted her incomplete application on November 27 and on the 29th, SBA sent a letter to Ms. Rice requesting current income verification as evidenced on filed Federal Tax Returns, or, if non-taxable income, copies of award(s) letter(s) stating benefits received. A letter, dated December 6, was received verifying Ms. Rice's Railroad Retirement benefits and her file was accepted for processing on December 12. An onsite inspection of the damaged property was conducted on December 21 by a SBA Loss Verifier. As Ms. Rice was not present, a follow-up telephone call was made to her to discuss her losses. Pursuant to financial analysis and evaluation, a Loan Officer contacted Ms. Rice on January 8, 1986 to discuss her loan request in conjunction with her financial situation and possible loan terms.

Ms. Rice's loan was approved and her Loan Authorization and Agreement drafted on January 27 in the amount of $39,800.00 at a four percent interest rate with $200.00 a month payments for a term of 28 years. At the time the Loan Authorization was mailed to her, SBA enclosed a letter requesting necessary information on the proposed Mobile Home which Ms. Rice intended to purchase. On February 24 SBA received a letter from Ms. Rice requesting that she be allowed to relocate from the damaged property to another location out of the flood plain, that she be allowed to purchase a modular home, and that her use of loan proceeds be amended accordingly, including allocating the unused portion of the loan funds of approximately $4,800.00 to repair/replace her personal property. A copy of the proposed purchase contract, dated March 5, was received by this office thereafter. Upon receipt of this contract, Ms. Rice's requests were analyzed and determined to be appropriate and were discussed with her. On March 31 a letter was forwarded to her to advise of the requested changes and to serve as an amendment to her Loan Authorization.

The required loan closing documents, which were drafted after the above amendments were made, were express mailed to Ms. Rice on April 15. In an effort to expedite an initial disbursement of loan funds, a check in the amount of $4,800.00 was ordered on April 15 from the U.S. Treasury to be sent to this office. Therefore, once Ms. Rice submits her executed Note, these loan funds will be mailed directly to her, thus alleviating the check order lag time. Upon receipt of the following closing documents: complete real estate purchase agreement, a complete legal description of the property to be purchased, a recorded Deed of Trust on the new property, Title Insurance, Building Permit Certification, and Hazard Insurance with SBA as an endorsee;

Page Two
Honorable Mavroules
April 23, 1986

further disbursement of loan funds will be made. Ms. Rice should also submit paid invoices or receipts and/or cancelled checks documenting the expenditure of the initial disbursement, once these funds have been spent in accordance with the amended use of proceeds.

Please be assured that every effort is being taken to expedite the disbursement of Ms. Rice's loan funds.

We respect your concern in this matter and have noted your interest in the loan case file.

Your continued support of the SBA Disaster Assistance Program is appreciated.

Sincerely,

Dick Nash

Richard J. Nash
Director, Area 2
Disaster Assistance

Appendix D--Letters From Disaster Victims in West Virginia

Member FDIC

THE FIRST NATIONAL BANK

of Parsons

FEDERAL RESERVE SYSTEM

PARSONS, WEST VIRGINIA 26287

TELEPHONE 304-478-2461

March 27, 1986

U. S. Small Business Administration
Disaster Assistance - Area 2
75 Spring St., W. W. Suite 822
Atlanta, Georgia 30303

RE: Allen H. Loughry, dba
Parsons News & Novelty
First Street
Parsons, W. V. 26287

To whom it may concern:

Allen H. Loughry, dba Parsons News & Novelty has been a preferred customer since 1978. During this time, he has borrowed on different occasions. His present loan payments are $535.86, which loan was made Sept. 1, 1982 and has not been delinquent in this period.He has shown us his ability to meet these payments promptly and also increase store inventory.

We feel that Mr. Loughry will continue to be a preferred customer and would extend credit if necessary.

Respectfully,

L. L. Teter
L. L. Teter, Loan Officer

State of West Va
County of Tucker; to wit;
This is to certify that Lewis Teter Loan officer for the First National Bank; signed his signature this date to the above document.
Sworn to and subscribed to before me this the 27th day of March 1986

My Comm: Expires August 7, 1995

Notary Public

As every one is very much aware, we had a disastorous flood on November 4, 1985. I was one of the victims as my business was completely destroyed. There wasn't any federal or state Assistance for the business person so I filed for a $142,000.00 S.B.A. Disaster Loan on December 30, 1985 and also an Economic Injury Disaster Loan of $7,000.00 or $8,000.00. On Wednesday, 3/19/86, I received a telephone call from S.B.A. in Atlanta, GA. A man named Williams telling me that my loan had been approved for my business and were going to take a second mortgage on my house, I said my house has nothing to do with my business but there was already a piece of property worth $50,000.00 tied into my loan (as security) at the bank on $29,000.00. I asked Mr. Williams was my loan for merchandise, a new building, fixtures, or what. He answered me with fact that he hadn't got that far yet and didn't know and hung up on me!

On my loan application I said I had assets of $95,000.00 because I figured unless the area recovered anything you owned is worth about 1/3 of its original value and I explained this on my application. My house and property were worth the following - House $90,000.00 - Farm $50,000.00- City lots $30,000.00 - 1/3 interest in 20 acres of prime farm land that is now covered with 4 feet of rocks thanks to the flood of 1985. The propertys value was $30,00.00. I own 3 automobiles and furnature. I owe $2,500.00 on my truck. I owe $7,500.00 cash to my son to help me get back in business. I also borrowed $10,000.00 from the bank. The State of West Virginia and The First National Bank of Parsons loaned me $50,000.00 at 2 1/2% for 90 days or until I received my S.B.A. loan.

My present status is that I am back in business at $350.00 a month rent and only 1/3 of the room that I need. Before the flood I was paying $250.00 rent for 4 times more room. I have approximately $25,000.00 worth of merchandise and fixtures. Just staying alive waiting on a loan.

Yesterday, 3/26/86, I bought a building lot for $4,000.00, that is worth $10,000.00, to build a store building on which I had intended to start building very soon out of the up front state money. I have been involved in the building trade since 1958 and can build a $50,000.00 structure (for myself) for $25,000.00 and fixtures.

My true worth should be $180,000.00 plus store, $25,000.00 furniture and autos. I owe First National Bank $29,000.00, WV and bank $50,000.00, my son $7,500.00 , $2,500.00 on my truck and $1,000.00 note at the bank for a total of $87,500.00. My new building and some fixtures or merchandise are figured in this. I need the rest of $142,000.00 for merchandise and fixtures and taxes.

A new building, merchandise, and fixtures could be worth what I am asking for, less the $29,000.00 loan at the bank but the piece of property worth $50,000.00 more than taken care of this, so I cannot see how and why this would not be enough security for S.B.A.

The reason my loan application was filled out at a anticipated lower value than what they were is because I didn't know what would happen to this area and still do not if we do not get some help. Also, two of the S.B.A. personell that were here for a couple of weeks advised me to fill out my form this way or to forget it because I would not be eligable for a loan because I would be worth too much money. So now, I am not even qualified for a $8,000.00 loan.

I also talked to two more business people tonight that were contacted about a mortgage on there homes to get a business loan. When they said no they were turned down also. I do not know their financial condition other than they need a loan.

My daughters have been turned down for special condition state aid for 1985-1986 because they say nothing happened to my income even though I lost my business and my job. My income for the 1985 and will be for the 1986, after my loss deductions, will be $0.00.

I make to much money for any help but not enough for a loan. I think this deserves some investigation and I would appreciate some more help in correcting this matter.

Thank You,

Allen H. Loughry

Allen H. Loughry

Rt. 1, Box 25
Hambleton, WV 26269

Parsons News & Novelty
305 First Street
Parsons, WV 26287

State of West Va.
County of Tucker to wit:

Personally appeared Allen H. Loughry
who signed his name to the document
above.

Sworn to and subscribed to before me
this the 8th day of April 1986.

My Comm Expires August 7, 1995

Notary Public

Please be advised that your Economic Injury Disaster loan application has been received by our Atlanta processing office. Your file will be processed shortly and you will be contacted by the processor assigned to your case. Thank you for your patience. All of our effort is directed to serving you promptly.

I WAS NEVER CONTACTED

Allen H. Loughry

Your file number is 6366-022

Please refer to this number in any correspondence.

A2 65 (1/85) Economic Injury

"Our SBA field office which verified your disaster loss has forwarded your file to our ATLANTA processing center for further attention. Your file will be processed shortly and you will be contacted by the processor assigned to your case. Thank you for your patience. All of our effort is directed to serving you promptly.

Your file number is 2217-2231."

I WAS NEVER CONTACTED OTHER THAN ON 3/19/86 WILLIAMS FROM SBA, AT. GA. CALLED TO TELL ME MY LOAN WAS BEING APPROVED BUT THEY WANTED A SECOND MORTAGE ON MY HOUSE.

Allen H. Loughry

SBA

U.S. Small Business Administration
Disaster Assistance - Area 2
75 Spring Street. S.W.. Suite 822
Atlanta. Georgia 30303

(FTS) 242-5822
(404) 331-5822

March 21, 1986

Rec. afternoon 3/24/86
3/20/86
A.H.L.

Allen H. Loughry
Route 1, Box 25
Hambleton, WV 26269

RE: DISASTER LOAN APPLICATION (File No. 6366-022)

THIS $ 8,200.00

Dear Mr. Loughry:

Careful consideration has been given to your application filed with this Agency for disaster assistance.

We regret that we are unable to approve your request for the following reasons:

The available collateral, considered along with other credit factors is not sufficient to protect the interest of the Government.

Also, the lack of reasonable assurance of the applicant's ability to repay the proposed loan and other obligations from earnings. We feel that your income is not sufficient to cover living expenses for your family, your current debts, and repay an SBA Disaster Loan.

If you disagree with this determination, you have the right to request a reconsideration. However, such a request must comply with the following requirements:

a. The request must be in writing.
b. It must be received by this office no later than six (6) months from the date of this letter under presently existing regulations. This time period is subject to change in accordance with the requirements of the Federal budget.
c. The request must contain all significant new information to overcome the reasons for decline.
d. Current financial statements must be attached to the request.

Charles [illegible] – head of loan processing
404-331-7801

HE WOULD NOT EVEN RETURN MY CALL
PATRICA FORSYTH SBA. AT. GA. - 404-331-5822
IS WHO FINALLY CALLED ME BACK AFTER THE WEEKEND
+ INSISTED THAT I DID NOT HAVE THE COLLATERAL TO COVER
LOAN EVEN THOUGH IT DIDN'T MATTER.

In the event that more than six (6) months have elapsed since the date of this decline action, a new application must be filed. Additionally, the specifications by SBA of any reason for denial of a loan request shall not constitute a waiver of SBA's right to deny such request for any other reason.

Sincerely,

Vernon R. Wik
Supervisory Loan Specialist

HRW:sj

SBA

U.S. Small Business Administration
Disaster Assistance - Area 2
75 Spring Street, S.W., Suite 822
Atlanta, Georgia 30303

(FTS) 242-5822
(404) 331-5822

March 21, 1986

Rec
3/27/86 AHL.

Allen H. Loughry
Route 1, Box 25
Hambleton, WV 26269

THIS $142,000.00

RE: DISASTER LOAN APPLICATION (File No. 2217-2231)

Dear Mr. Loughry:

Careful consideration has been given to your application filed with this Agency for disaster assistance.

We regret that we are unable to approve your request for the following reasons:

The available collateral, considered along with other credit factors is not sufficient to protect the interest of the Government.

WE HAD NO CONTACT AT ALL EXCEPT A PHONE CALL TELLING ME I WAS APPROVED
A.H.L.

Also, the lack of reasonable assurance of the applicant's ability to repay the proposed loan and other obligations from earnings. We feel that your income is not sufficient to cover living expenses for your family, your current debts, and repay an SBA Disaster Loan.

If you disagree with this determination, you have the right to request a reconsideration. However, such a request must comply with the following requirements:

a. The request must be in writing.
b. It must be received by this office no later than six (6) months from the date of this letter under presently existing regulations. This time period is subject to change in accordance with the requirements of the Federal budget.
c. The request must contain all significant new information to overcome the reasons for decline.
d. Current financial statements must be attached to the request.

In the event that more than six (6) months have elapsed since the date of this decline action, a new application must be filed. Additionally, the specifications by SBA of any reason for denial of a loan request shall not constitute a waiver of SBA's right to deny such request for any other reason.

Sincerely,

Vernon R. Wik
Supervisory Loan Specialist

HRW:sj

To: The General Oversight and Economy Committee
Subject: Disaster Loan Assistance
Date: April 3, 1986.
From: Ronald W. Castle
Dorsey's TV - Leisure Time Video
319 First Street 304-478-3161
Parsons, WV 26287

Honorable Committee Members,

I greatly appreciate being given the opportunity to testify at this hearing. I am deeply disturbed by many things that have taken place during the recent months.

Prior to the November 4-5, 1985 flood, we had enjoyed the best two business quarters in our nearly five-year history. We were in the midst of enjoying a nearly 30% growth in business from 1984 to 1985.

I would, at this time, like to address each of the issues cited in the loan denial. (Attachment)

1. Lack of ability to repay
   How can the SBA make a statement like that? They did not ever even conduct a routine credit check with the local bank, with which I do all my business transactions.
   Further, my wife and I have been in business for nearly five years. We survived an economic depression during our first years in business. In October 1982, I was involved in an auto accident and received a broken back. I was in a full body brace, from the waist up, for six months and under a doctor's care for two years. My wife ran the business, virtually by herself, for nearly a year after the accident.
   We purchased the building we were renting in March 1983. During all this time, including the flood of November 4-5, 1985 to present, we have never missed an installment loan payment. We remain current with our installment loan payment to this very day.
   I, therefore, strongly resent the implication that we are unable to repay a loan.

2. Gross disproportion between investment and loan
   The original purchase price of the business and appraised value of the content in June 1981 was $1500.00. The SBA verfied amount, after the flood, was over $62,000.00 for the contents. This amount, I understand, does not include anything for building damage. The total business indebtedness (building and contents) at the time of the flood was $38,000.00
   Allowing $62,000.00 for contents, $8419.00 for building repairs to date and additional repairs that are required, the $107,000.00 loan request is not out of line.
   We worked all this past winter in our building, with only a 20,000 BTU kerosene heater, lacked repair parts, equipment, shelving and used a restroom that needs additional repairs.

3. Lack of collateral
   I am fully aware that collateral is lacking. After all, I had $62,000.00 worth, go down the river, plus all of the first floor of my building.
   Every business person in Parsons was told repeatedly during public meetings with SBA officials, that lack of collateral would not be a reason for denial. That is the very purpose of the disaster loan program. The disaster normally takes all or most of your collateral.
   To make matters even worse, in my case, I offered a $96,000.00 annuity account as collateral. That makes this reason for denial totally our of line. I also feel that since we have a perfect payment record, that this should not be required in this instance.

During public meetings, every one was also told that SBA Disaster Loans could be used to pay off existing loans for lost merchandise and property. I, therefore, offer a very easy solution to my disaster situation.

1.	Debt before flood	$38,000.00	12.%	Monthly payment	$573.00
2.	Debt after flood	46,200.00	10.%	Monthly payment	597.00
3.	SBA Loan	70,000.00	4.%	Monthly payment 15 years	517.00

With the $70,000.00 loan I would pay off the $46,200.00, giving the SBA clear title to all property and merchandise. This would leave me $23,800.00 to complete building repairs, replace some repair parts and equipment and purchase additional merchandise for resale.

This would not put me back to my original condition before the flood, but something along these lines would surely help. This is what I would hope, disaster assistance is all about.

Thank you for your concern.

Respectfully submitted,

Ronald W. Castle

Ronald W. Castle

Wcl

SBA

U.S. Small Business Administration
Disaster Assistance - Area 2
75 Spring Street. S.W.. Suite 822
Atlanta. Georgia 30303

(FTS) 242-5822
(404) 331-5822

February 26, 1986

Ronald and Constance Castle
d/b/a Dorsey's TV Sales
Parsons, WV 26287

RE: DISASTER LOAN APPLICATION (File No. 2217-312)

Dear Mr. and Mrs. Castle:

Careful consideration has been given to your application filed with this Agency for disaster assistance.

We regret that we are unable to approve your request for the following reason:

The lack of reasonable assurance of the ability to repay the proposed loan and other obligations from earnings. Based upon a careful analysis of the financial data and projections that you provided with your application, it has been determined that cash flows will be insufficient to service existing debt and service a new loan from the SBA, as well as provide for the needs of your family. Please note that all sources of income were considered and a "best case" analysis was done from your projections to determine a maximum cash flow, which was still not sufficient.

Also, there is a gross disproportion between the owner's actual investment and the loan requested. The requested loan would have been several times that of your actual investment.

In addition, for loan purposes, after taking into consideration prior liens and considered along with other credit factors, the net value of the collateral offered as security is not, in our opinion, sufficient to protect the interest of the Government.

Again, our analysis shows that your liabilities are currently greater than your assets.

If you disagree with this determination, you have the right to request a reconsideration. However, such a request must comply with the following requirements:

a. The request must be in writing.
b. It must be received by this office no later than six (6) months from the date of this letter under presently existing regulations. This time period is subject to change in accordance with the requirements of the Federal budget.
c. The request must contain all significant new information to overcome the reasons for decline.
d. Current financial statements must be attached to the request.

In the event that more than six (6) months have elapsed since the date of this decline action, a new application must be filed. Additionally, the specifications by SBA of any reason for denial of a loan request shall not constitute a waiver of SBA's right to deny such request for any other reason.

Sincerely,

Vernon R. Wik
Supervisory Loan Specialist

RAP:slr

April 4, 1986

TO: Honorable Nicholas Mavroules, Chairman
Committee on Small Business
B363 Rayburn Office Bldg.
Washington, D.C. 20515

Subject: Disaster Loan Assistance

From: Ronald W Coster
Dorsey's TV
319 1st St. 304-478-3161
Parsons, WV 26287

Honorable Committee Members,

I greatly appreciate the opportunity to tesify at the hearing in Lewisburg on April 11, 1985.

After more than five months since the flood, a very limited number of retail businesses have reopened in the Parsons downtown area.

They have not reopened "because of" disaster assistance, but rather, "in spite of", the lack of disaster assistance.

This leaves little doubt, that the SBA Disaster Assistance Program has serious problems.

Thank you for your concern.

Respectfully
Ronald W. Coster

GEORGE T. LEATHERMAN
OLD FIELDS, W. VA. 26845

Phone: (304)538-2898

April 4, 1986

Mr. Nicklolas Mauroules
Chairman
Subcommittee on General
  Oversites and the Economy
B-363 Rayburn Building
Washington, D.C. 20515

Dear Mr. Mauroules:

Our experience with the Small Business Administration (SBA) Individual Family Disaster Loans has been one of extreme frustration and confusion.

After the flood of November 4, 1985, we were among the first families to visit the DAC Center and discuss our recovery alternatives. At this point, we discovered we were eligible for an SBA loan with probable refinancing of our existing mortgage. We received the initial application and instructions on that day, November 14th. We completed this form and mailed it the following day, November 15th. An SBA official verified our losses in mid December. On December 27th, we were contacted by our loan officer, Howell Cone.

Mr. Cone said we qualified for an SBA loan in the amount of $60,200.00 at 4% interest. We felt this amount was more than we could afford with our present mortgage. In this conversation we mentioned refinancing as promised us in the DAC center. He said he didn't believe we could refinance, but he would check with his supervisor. That same day Mr. Cone called again saying we could not refinance and we had to take the entire $60,200.00 Other people in our area were intimidated by the large loan amounts. Afraid of not being able to repay, they abandoned the loan process at this point.

After much discussion and a firm stand on our part, Mr. Cone agreed to consult with his supervisor regarding refinancing our present mortgage. On January 3, 1986 Mr. Cone called to verify our SBA loan in the amount of $78,000.00 at 4% for 28 years with a monthly payment of $390.00. This included the refinancing of our present mortgage and disaster recovery funds. He then informed us a "packet" would arrive in two weeks from thier legal department. This packet did arrive - 6 weeks later!

After two weeks, we began to call Atlanta to check on the delay of our packet. This whole process led to much frustration. The receptionists would make excuses that Mr. Cone was not there. At times they said Mr. Cone did not work there. They said his supervisor was sick and the excuses would not quit. We finally talked to Mr. Chuck Knoble who promised to check on it, and again, no results. We then were told it was in legal. When we contacted the legal department they said it was in processing.

Mr. Nicklolas Mauroules
Page Two
April 4, 1986

On February 4, 1986 we contacted Representative Harley O. Staggers, Jr. and asked for help in this frustrating process. When contacted at this time by Randy Rhodes, Congressman Staggers Office, SBA said we would receive our packet in fifteen days. We did receive this first packet on February 25, 1986 102 days after we filed for our loan.

We returned this packet within one week, thinking that the loan process was complete, boy, were we wrong! The first of March brought a huge packet with many more complicated and frustrating papers. Up to this point we had completed-all papers ourselves, but this last packet completely overwhelmed us so we went to a lawyer for assistance. He helped with some papers and recommended consulting the SBA representative who was in town that day.

This representative provided some help, but was not understanding of our frustrating situation and ridiculed us for consulting a lawyer. We returned this final packet on March 29, 1986 and received our first check on March 29, 1986.

Now we are facing itimizing each bill incurred in the repair cost, requiring a ton of paper, hours of time and much frustration again.

Our experience with the SBA Individual Family Disaster Loan programs has been frustrating. We have received mixed messages about what SBA can and can not do. We have had several promises without action from, "Your packet will be there in two weeks", to "It is in the mail". Phone calls to Atlanta resulted in constant run arounds and rude receptions. The amount of time to process the loan is frustrating, demoralizing, and unrealistic. The complexity of the paper work is prohibitive in helping people who need the assistance.

We suggest that future disaster loans be made in a much simpler, more courteous, and much more timely fashion.

Sincerely yours,

George T. Leatherman III
George T. Leatherman

Miriam S. Leatherman
Miriam S. Leatherman

Parsons Business Persons Association, Inc.
Parsons, West Virginia 26287

April 9, 1986

The Honorable Nicholas Marvroules
Chariman
United States Of Represenatives
Committee On Small Business
Subcommittie On General Oversight And Ecomony
38-363 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Mavroules:

In our meeting of April 8, 1986 we found few if any businesses in Parsons, West Virginia have recieved S.B.A. disaster assistance of any type. After waiting some six months this amounts to a great amount of neglect. Our orginezation is asking immediate action pertaining to this matter. Any and all considerations pertaining to this matter will be greatly appreciated.

Sincerely,

Philip J. Haddix
President.

PJH: pjh

TO: The General Oversight and Economy Committee

SUBJECT: Disaster Loan Assistance

DATE: April 9, 1986

FROM: Carol J. Thompson
Thompsons Dept. Store
325 First Street
Parsons, WV 26287

502 Central Ave.
Parsons, WV 26287
(304)478-2778

Honorable Committee Members:

On January 6, 1986, I applied to S.B.A. for a loan of $247,000 to replace building and contents lost in Nov. 4-5 flooding in Tucker County. The building housed my small retail business and two rentals being the Kut and Kurl Beauty and Barber Shop and the Tucker Co. Physical Fitness Center on the ground floor. The upper level was vacant at the time of the flood housing two apartments and large storage area.

In four months prior to the flood the building had been remodled and re-stocked at an additional loss. I am $90,000.00 in debt, with no building, no business and in a short time probably no home. We were assured that our Disaster Loans would be rushed through and we would be back in business soon. All records were lost and some cannot be replaced making it extremely difficult to furnish information requested by S. B. A. I have no idea the status of my application. Each time a Congressman or Senator has inquired on my behalf, I have received a request for more information or telling me I have been removed from the files for lack of information requested. To my knowledge they have been furnished with all information required. I do not have a file number, as I was informed the one I had was not correct.

We need your help in obtaining these loans without which many of us will be without businesses, homes or jobs. Since I would have to replace a building my time is running out. I have no hope of recovering my losses without the help of S. B. A. It is of great concern that the 10 million dollars appropriated by Congress for administrative cost is not serving the purpose for which intended. With that amount, our local Banks could have served our need and spared us all many problems.

Sincerely,

Carol J. Thompson

Carol J. Thompson

April 10, 1986

Honorable Nicholas Mavroules, Chairman
United States House of Representatives
Committee on Small Business
Subcommittee on General Oversight and the Economy
R-363 Rayburn House Office Building
Washington, D.C. 20515

Re: Tucker Farm Supply
Parsons, West Virginia

Dear Mr. Mavroules:

I am enclosing a copy of a written statement prepared for your committee outlining questions we have about the Small Business Administration and the disaster that occurred in twenty-nine West Virginia counties in November of 1985.

In addition to this copy, I have sent fifteen copies of the same statement to the hearing that is being held Friday, April 11, 1986, at the Greenbriar County Courthouse in Lewisburg, West Virginia.

After you have reviewed our statement, if have any questions, please contact me. I will glad to provide any supplemental information you might need or want. I will look forward to your response to our questions.

Sincerely,

Pat Gray

P. O. Box 129
Parsons, West Virginia 26287
(304) 478-3402

To: Nicholas Mavroules, Chairman
United States House of Representatives
Committee on Small Business
Subcommittee on General Oversight and the Economy
R-363 Rayburn House Office Building
Washington, D.C. 20515

Re: Tucker Farm Supply
Parsons, West Virginia

Mr. Chairman and Committee Persons:

Tucker Farm Supply is located in Parsons, West Virginia. It is a Southern States cooperative. It is a small family-owned corporation, whose principal stockholder is Odford "Buck" Gray. Buck is well known and well thought of in Parsons. He is the former owner of Parsons News and Novelty, a small book and novelty shop.

Tucker Farm Supply is an essential business to Tucker County, selling farming essentials to farmers and residents of Tucker County. This business is also the distributor of propane gas for the area, and as such is the source for heat and cooking gas supplies for many residents.

Like most small businesses, Tucker Farm Supply was running at a small margin of profit when the flood of November 4, 1985, occurred. This business, along with most of the others in Parsons, was essentially "wiped out". It's location in the "Pulp Mill Bottom" put it in a direct path of the ravaging water that broke over the dike in that area.

Application was made to the Small Business Administation for assistance. Rodeheaver Associates, an accounting firm in Parsons, handled the paperwork and application for the corporation. Because the business was extended financially before the flood, the decision was made to apply for a "consolidation loan" which would consolidate the outstanding indebtedness with the monies that would be needed to get the business back on its feet after the disaster. The existing loan was at 15 percent and was a partiication loan between a local bank and S.B.A. If these amounts could be consolidated at 4 percent, the resulting amount would be less than the amounts being presently paid, and the business could absorb the cost of the new loan.

S.B.A. did not quite see it that way, however, and the loan was denied due to lack of ability to repay. A letter of denial was received by the business with routine information for reapplying.

Two reasons prompted us to prepare a report for this committee:

1. Parsons, as well as all of the other communities that were affected by the flooding in November, was given to believe that S.B.A. would be able to come to their assistance in this disaster situation. Meeting after meeting was held, and verbal assurances given that things would be okay; that Parsons would not be allowed to "die"; that there was assistance available. We were told that ability to repay did affect the decision, but that there were other factors involved, and consolidation was one of the considerations. Hope was held out to all. This was, to our way of thinking, diaster relief. It was understood that the basic business principles would not necessarily apply in these situations, as the main consideration was in getting small businesses back on their feet, so that Parsons could be rebuilt.

The one good thing that can be said about the administration is that they were endlessly courteous. However, they were also distant. Packages of information and forms came to be completed that were very difficult, at best, to understand. Mr. Gray chose to have an accounting firm complete his application, not only due to lack of understanding, but due to lack of time. There were deadlines to be met, and he was needed at the store, to clean and restore things as best he could in order to get back open even in a limited way.

The application process was as unpersonal as possible. Yes, people came into the courthouse to answer questions, but the people who were involved in restarting their business did not have time to discuss the application again and again. They needed this time to work on their businesses. Unfortunately, in Tucker Farm Supply's case, Mr. Gray suffered a severe heart attack, and was unable to follow-up his application even in this way. People close to him feel that this was a direct response to the disaster and to the worries regarding the possibility of losing his home and business. Any Government agency is impersonal. It is hard for a large-scale agency to be on a personal basis with everyone it serves. However, this agency was a response to a DISASTER. It's very being implies a necessity to be of help and assistance in a personal way.

The end result of the application process for Buck Gray and the Tucker Farm Supply was denial of the application. Denial because of lack of ability to repay. Given regular standards, yes...maybe. But regular financial standards were not supposed to be the norm in this situation. The agency was to help the people who needed it. If you were able to come up with the money given regular financial standards, what would prevent you from going to a regular lending institution, other than the fact that S.B.A. offered a lower interest rate? It was our opinion that S.B.A. was to help those who had no other place to turn. Obviously, that was a mistaken opinion. Not only could they not help this small business that had no other place to turn, but they offered no other alternatives. The denial letter was just that. So sorry. You are denied. You can reapply within six months. No other information or sources that might be of help. Nothing!

2. The other part of why we are giving this report to the committee is in essence--Where do we go from here?
Can this committee tell me, please, where is the next step for small businesses to go? What is the future for this business and other businesses in the same position? If S.B.A. is unable to help Tucker Farm Supply, then what can be done from stopping this company from going broke, and this person from losing his home and livlihood? Is this the way West Virginia and the Federal Government respond in time of crisis? We are not talking of someone losing a business due to bad business decisions. This is a good business. It operates at a small margin, but most small businesses do. At present, until Mr Gray attains his former good health, his sons are helping to keep the business going as best they can. Without funds to replace structural damages and replace lost inventory, this is a difficult if not impossible task.

Buck Gray and Tucker Farm Supply are only one business. It is small, located in a small town. However, this committee does not need to be told that small businesses are the backbone of West Virginia economy.

S.B.A. is not going to help. They have guidelines. Guidelines that supposedly equal good business practices. If you don't have money, you don't get money...but that wasn't the way it was supposed to be. S.B.A. was to help Parsons. Instead it has hurt. It has stopped progress for six months while answers and decisions were being made. Six months that alternatives could have been sought. Now, we are being told that the help isn't there. We are going to lose many of our small businesses, and that is wrong. Without these businesses Parsons will die, and that is also wrong. Tucker County and Parsons, and Tucker Farm Supply in particular, are not looking for handouts -- they are only looking for hand-ups!

Thank you.

April 10, 1986

To: Congressman Harley O. Staggers, Jr.

From: Dr. Richard M. Goldman

As both Director of Development of the City of Parsons, WV and President of The Parsons Community (Development) Association, I would like to advise you of the problems we are having in re-establishing commerce in the City of Parsons due to lack of success of the SBA Disaster Program.

To date, none of our downtown businesses have received any SBA Disaster Funds. Between 70% and 90% have been denied any loan, many due to insufficient collateral. The SBA told me early on at the DAC Center that nobody would be denied on that basis. Those few, 4 to my knowledge, that have been approved, have yet to receive one cent, even though the flood was five months ago.

Since Parsons lost over 90% of its businesses to the flood, we are trying to rebuild what is basically the entire business sector in a programmed re-vitalization effort. The delays and denials by the SBA have been very destructive to our community--creating an economic and morale problem of major proportions.

SHERIFF'S OFFICE of TUCKER COUNTY
GARY L. LIPSCOMB, *Sheriff and Treasurer*
Telephone 304-478-2321
PARSONS, WEST VIRGINIA 26287

April 10, 1986

United States House of Representatives
Committee on Small Business
Subcommittee on General Oversight & the Economy
B-363 Rayburn House Office Building
Washington, DC 20515

Gentlemen:

It is my understanding that Congress instituted the SBA disaster assistance program to give disaster victims immediate access to low interest loans. Am I correct?

As of this date my new house is under construction. In fact, it is almost completed. What I would like to know is when will I receive the loan for which has been approved?

At the present time SBA holds the deed of trust to my house. I have paid my contractors the cost of construction with a personal loan at 14% from my local bank. This hardly seems fair to me. Don't you think immediate action should be taken on SBA's part?

I am only one victim concerned about the period of delay on the part of SBA in issuing the approved loans.

Your prompt attention to this matter will be appreciated.

Very truly yours,

Gary L. Lipscomb

Subscribed and sworn to before me, this the 10th day of

April, 1986.

Allen D. Judy

Allen D. Judy, Circuit Clerk of Tucker Co., WV

My Term expires Dec. 31, 1986.

To: The General Oversight and Economy Comittee

Subject:SBA Disaster Loan Assistance

Date: April 10, 1986

From: Jane H. Barb, President

Barb's Drug Store, Inc.

104 Walnut St.

Parsons, WV 26287

Gentlemen:

As a result of the flood of November 4, 1985, Barb's Drug Store was totally destroyed. Everything within the building was a total loss, with the exception of some insulation and ceiling light fixtures.This in addition to a rented warehouse which contained approximately $10,000.00 in merchandise and supplies.

Our first action was to open an emergency pharmacy to see that our customers had the medications they needed. We filled the first prescription at 5 p.m. on Wednesday, November 6, 1985 in the office of the Tucker County Emergency Squad and the following week opened a temporary pharmacy in a residential area of town.

By November 8th, 1985 we had the side of the building knocked out and a bulldozer scraped and pushed everything from on the inside, down to the bare walls, out into the street and we began to re-build the business.

We were more fortunate than most other businesses, in that we had $99,700.00 in flood insurance. In December we found it necessary to borrow $30,000.00 from our local bank, to pay for a new computer and cash register. •

On January 4, 1986 we mailed our S.B.A. Disaster Loan Application, requesting the sum of $417,000.00, to replace inventory, fixtures and equipment and to pay for lost inventory invoices and on January 7, 1986 filed an application for $100,000.00 loan at 2½% interest through the WV Housing Authority. The loan we received on January 17th, 1986.

In February 1986, we received a card saying our application had been received in Atlanta. The first week in March we were called and told that we needed to send a copy of the Corporation Charter and a certificate of good standing from the Secretary of State, which was obtained and forwarded in less than six days.

In speaking with a personal friend, who works for Congressman Staggers, on March 13th, I mentioned that we were most anxious about our loan and he said that he would check on this in my behalf. The next day a Mr. Beirweth, from Atlanta, called and said that our loan had been approved for $174,000.00 for inventory, fixtures and equipment and $48,000.00 for repairs to building. When I questioned the amount, I was told that if this was not satisfactory, I could appeal, which would take much longer. When I called my friend from Congressman Staggers office, the following day, to say I had heard from Atlanta, he said that the information he received from his inquiry to the office in Atlanta, in my behalf was, "Barb's Drug Store can't make up their mind whether they want a loan or not".

Yesterday, April 9th, 1986, I received a form-letter saying I should receive a loan package in approximately five days and after complying with instructions, should return.

As of March 27, 1986, we have spent $144,260.00 for equipment, fixtures, materials and labor. This doesnot include inventory or supplies (bags, labels, etc.) and additional invoices to be paid for the above. We had repaid the $30,000.00 loan to our local bank and have paid $487.07 interest on the $100,000.00 loan.

I was told by the S.B.A. representative at the Tucker County Courthouse, during November 1985 that our loan would be processed and complete sixty (60) days after applying and to expect an additional 30 days to receive the loan.

I well remember headlines in several newspapers that Senator Byrd had requested and was granted, ten million dollars to hire additional employees to expedite the processing for disaster loans for West Virginia flood victims, as well as numerous news items, after filing deadline, stating that very few disaster loan applications had been filed. Therefore, I find it extremely difficult to be patient with this situation.

I also find it rather difficult to understand why the amount I requested, which I do not find extreme, was cut so drastically, when a neighboring business man told me that he was offered $500,000.00, after requesting much less.

We who are sincerely trying to re-build our lives, our businesses and our community, appreciate your time and interest in our behalf.

Respectfully submitted,

Jane H. Barb

Jane H. Barb, President
Barb's Drug Store, Inc.
104 Walnut St.
Parsons, WV 26287

304/478-3291

GREENLIEF FUNERAL HOME
Post Office Drawer G
Parsons, West Virginia 26287

RE: DISASTER LOAN APPLICATION April 10, 1986

FILE NO: 2217-2005
Steven W. Combs

To Whom it May Concern:

PURPOSE OF APPLICATION: Replace and refurnish all necessary property lost in the flood required to operate as a funeral home.

LOSS INCURRED: $181,950, which consisted of our entire fleet of 5 vehicles, inventory, all furniture, and professional mortuary equipment necessary to operate.

All applications professionally prepared by Rodeheaver and Associates, certified public accountants. Fees incurred to date, $950.00. Applications filed and all additional information provided to SBA.

ACTION OF SBA: Not approved as a result of insufficient information on two occasions. Each time, additional information has been requested, above and beyond the set criteria originally asked for . As to date, everything has been submitted.

END RESULT IF SBA ASSISTANCE DOES NOT TRANSPIRE: Unable to obtain additional funding necessary to return to an operational facility.

We have proven to SBA that our business is a viable and prosperous business.

Steven W. Combs
Steven W. Combs

10th day of April 1986

Notary Public ____________________

My commission expires 9th day of June 1989

GREENLIEF FUNERAL HOME
Post Office Drawer G
Parsons, West Virginia 26287

RE: DISASTER LOAN APPLICATION April 10, 1986

DAVID K. GREENLIEF
FILE NO: 2217-2634

To Whom It May Concern:

PURPOSE OF APPLICATION: Reconstruction of real estate known as Greenlief Funeral Home, in business since 1947. Family in business since 1932.

LOSS INCURRED: $107,000, obligations on real estate $89,000. Total requested is for real estate and physical plant only.

All applications professionally prepared by Rodeheaver and Associates, certified public accountants. Fees incurred to date, $1000. Applications filed and all additional information provided to SBA.

ACTION BY SBA: Not approved as a result of insufficient information on two occasions. Each time, additional information has been requested.

END RESULT IF SBA ASSISTANCE DOES NOT TRANSPIRE: Unable to obtain additional funding necessary to return physical plant to a rentable, saleable condition. I am presently in process with interium assistance from First National Bank of Parsons, who has made funds available from WV Housing. This has been provided on the premise that SBA assistance was forthcoming.

FURTHER INFORMATION: It has come to my attention that many of those who have received approval from SBA are those who have no intention of rebuilding or returning to business. Those in our community who are trying to rebuild and return to some semilance of the former situation are receiving nothing but denials and stumbling blocks from the entity which was sent to give us assistance.

It has also come to my attention, though I cannot document this statement, that SBA has approved a loan for the establishment of a new business of the same type of which my family has been engaged for over 50 years. I fail to see the equity of this situation. Why will they, SBA, fund a new business and allow an established one with a proven record of success to faulter?

David K. Greenlief

David K. Greenlief
10th day of April 1986
Notary Public
My commission expires 9th JUNE 1989

Member FDIC

THE FIRST NATIONAL BANK
of Parsons

FEDERAL RESERVE SYSTEM
PARSONS, WEST VIRGINIA 26287
TELEPHONE 304-478-2401

April 10, 1986

Congressman Nicholas Mavroules, Chairman
Subcommittee on General Oversight and the Economy
Committee on Small Business
B-363 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Mavroules:

With reference to the hearing to be held in Lewisburg, West Virginia, on Friday, April 11, 1986, regarding SBA loans to disaster victims of the flood that occurred in this area in November 1985, I would like to submit the following for the record.

Since the above-mentioned flood, this bank has made eighteen (18) loans to victims of the flood who had made applications to SBA shortly following the flood. These 18 loans total $582,620.00. Six of these loans, totaling $176,200.00, have since been refused by SBA.

In each case we made these interim loans based on the approval of SBA to repay same and documentation to this effect was in hand by the customer and was our surety for the loan.

We feel that SBA misled many people in this area regarding the approval of loan applications and hope that your investigation of this matter will benefit other disaster victims.

Sincerely yours,

THE FIRST NATIONAL BANK

R W Minear
R. W. Minear, President

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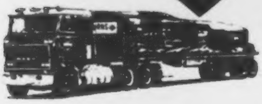

APR 17 1986

April 11, 1986

The Honorable Nicholas Mavroules
U.S. House of Representatives
B- 363 Rayburn House Office Building
Washington, DC 20515

Dear Sir:

I appreciated the opportunity to appear before your Subcommittee in Lewisburg, WV on April 11, 1986. It is gratifying to know that we have people in government, such as you, that care about people.

You showed a true concern for the people of West Virginia and Virginia in conducting your hearings on the local level.

I was somewhat concerned and totally disagree with the description panel three gave of West Virginians. We are not a group of stupid people that can only communicate with the original Indians.

The people in this part of West Virginia are honest, hard working people and are not looking for a free ride. I think, the problem has been that the S.B.A. has given us the feeling that we were trying to take advantage of their program. The real problem is, that for a disaster program, the S.B.A. regulations are too burdensome for people to handle during a time of stress. Maybe, Congress has given them a law that is unworkable in disasters. Also Atlanta is too far away from the disaster area to provide good communications with the people. We can communicate with anyone and I am sure people in government can also, if given the proper opportunity. All we ask is for a program that will speed recovery, not delay it.

Again I thank you for your concern and the opportunity to express my opinion.

Very truly yours,

Fred C. Burns, Jr.

Fred C. Burns, Jr.
President

Comments Respectfully Submitted To:

Congressional Hearing Concerning the Small Business Disaster Loan Program

Lewisburg, West Virginia

April 11, 1986

Respectfully Submitted By:

Jerry Hughes
Business Analyst
Small Business Development Center/Lewisburg
Small Business Division
Governors Office of Community and Industrial Development

402 North Lee Street
Lewisburg, West Virginia 24901
304-645-6265

A. Background

I am a professional business analyst with the job function which includes, but is not limited to, providing direct counselling to small business to assist in the process of obtaining financing for the continuation of the business. My assigned areas include Greenbrier, Pocahontas, Monroe, and Webster Counties.

I began vigorous and continued counselling with affected small business immediately following the flood of November 4, 1985. I have continued with this counselling through today's date.

The counselling has involved the completion of Physical Loss Loan Applications, Economics Loss Loans, Major Source of Employment Studies, etc. I have worked with 82 businesses to date.

Bases of Knowledge:

a) 5 months and 82 Small Business Administration Disaster Loan Applications

b) Constant Study of the SBA Disaster Loan, Standard Operating Proceedures Manual

c) One Years Contact with the victimized business prior to the flood.

d) Intensive research of the small business economics in the areas involved, both before and after the flood. The completion of a comprehensive Economic Profile and needs assessment for the counties involved.

e) 13 years as a small business person.

B. Observations of Problems Encountered with the S.B.A. Disaster Loan Program

1) Physical Injury Loans

Description these loans are for the replacement of fixed assets (ie. building, inventory, equipment) which were damaged or destroyed during the disaster.

Terms 4% for up to 30 years if business can prove that no other sources of financing are available
8% for up to 3 years if other sources of financing are available.

Problems:

a) Most loan applications averaged over 30 pages in length.

b) Business with other sources of financing found commercial financing more helpful.

c) Most businesses had no problem proving that they had no other source of financing, but then the SBA determined that they did not properly demonstrate the ability to repay the loan. The SBA then refused to make a loan. Most applicants were not aware of the repayment standards prior to submission of the application.

d) the principle of having to prove that you are not liquid or financable ~~and~~ in order to get a loan, that requires that you must be liquid enough for repayment is a conflict which often produces a "Catch 22" situation.

e) the average processing time on these loans is over 5 months (in my experience.) During this time clients have become delinquent in accounts payable and debt service on existing loans.

f) At the time the loans are okayed the small businesses find that the only way to obtain the approved loan is by paid invoice reinbursement. After 5 months of no cash flow the business does not have the funds to make the initial purchase.

g) The funds can only be used for the purchase of specific items listed on their application. Because of the delay in recieving a loan many firms find that they cannot use or afford to use the total loan amount approved. Although they man only use a small percentage of the loan approved the business must pay the monthly debt service calculated for repayment of the full loan amount. This often puts the business in a position where they are unable to accept the loan.

h) Since this loan offers no provision for working capital or accounts payable--many businesses are bankrupt before the loan is approved and cannot afford to accept the loan.

2) Economic Injury Loans

Description: These loans are for the acquisition of working capital for past due bills and debt service from the time of the flood until such a time as the business is able to reach a break even point.

Terms: Same as Physical Injury Loan

Problems: a) I was informed Wednesday, April 9, 1986 that this loan option has been cancelled retroactive to October 1, 1985. If these loans are unavailable over 40 of the businesses I have worked with will declare bankruptcy.

b) These loans require another 40 pages of documentation in addition to the 30 to 40 pages from the previous loan application (Physical Injury.)

c) SBA requires a waiting period which is reasonable in most cases for a determination of present condition and future projections, but if this loan takes as long to process as the Physical Injury Loan it is of no use.

3) Compliance: a) Applicants must find contractors who are bonded to do their work. There are not nearly enough bonded contractors to perform the work.

b) Contractors are required to comply with Federal Equal Opportunity Employment guidelines and there are few who can.

c) Applicants are being required to purchase title insurance. Lawyers are charging 2% of original purchase price and applicants do not have the funds for this as loan proceeds cannot be used.

d) There are 2 problems encountered with requirement of insurance coverage:

-Many applicants have been refused insurance.

-It is very difficult to obtain insurance on a building that has not yet been constructed.

c) The list goes on--in many cases the SBA requests items and documentation which is:

-not understood by the small business
-takes months to produce
-is not necessary

4)New Cancsellation Dates:
a) The SBA is placing applications in the inactive file if applicants do not forward requested documentation within 5 to 10 day time frames. This seems very unfair as many applicants interpret this as a rejection of their loan.

b) It is abvious that this tactic is motivated by a desire appear more productive and timely in the processing of loan applications.

5) Attitude:

a) I have worked with many individuals with the SBA Disaster Loan Program who have been very helpful and have conducted themselves in a friendly manner but:

-It is very obvious the SBA point of view or perspective on applications is not that of helping victims but that of protecting the U.S. taxpayer.

-I have not worked with a single client who has requested a loan for an amount as high as his or her loss.

-Many applicants have been insulted and discouraged by this implied acquisation of guilt until proven innocent.

I certify that to the best of my knowledge all of the above statements are true and accurate.

Jerry Hughes

4/11/86
Date Signed

Debi's Donuts & Bakery
305 First St Parsons, WV 26287
Disaster Loan Application (File No. 2217-2071)

My husband & I applied for Disaster Aid for our home & business both in local DAC, and we were immediatly rejected an application for SBA loans for contents of our rented home. At the time of the flood, we were approximatley 4 weeks away from completing a new home out of the flood-plain, of course after preparing 6 years to move into a new home, we had our furnishings new & paid off, to sit in our new home. Our home mortgage is sizable, and was stated as the reason for inability to repay, along with the fact that my business was completely destroyed. After aquiring a CPA to complete our SBA loan application (business) we were again told (in writing this time) "The lack of reasonable assurance of the ability to repay the proposed loan and other obligations from earnings. Financial data furnished with your request for a loan indicates that your present debt payments plus the anticipated home mortgage and SBA payment would exceed your projected income." Thus... how can we overcome with no help. My home mortgage kept me from a home loan for my damaged contents, and again kept me from a business loan. For your info my request was for $23,115.00 which including restructure of my previous debt. Obviously, SBA & the federal government would prefer I & my family become wards of the state or welfare recipients. My past record of working 12 hours daily proves I am truly lazy. Respectfully Deborah R. Stevens

Appendix E--SBA Comments of Cases in West Virginia

SBA COMMENTS

AS OF JUNE 6, 1986

ON CASES MENTIONED IN HEARING TESTIMONY

STATE OF WEST VIRGINIA

Ronald W. Castle
Dorsey's TV, Leisure Time Video
Parsons, West Virginia

Small Business Administration (SBA) disaster business loans are made if there is a reasonable assurance of the ability of the applicant to repay the loan from the operations of the business. This determination is based on the cash flow generated by a business as shown in its Federal tax returns and financial statements. The information submitted by Mr. Castle showed a negative cash flow in 1983 and an increased negative cash flow in 1984 despite an increase in sales. Although SBA did not check with Mr. Castle's bank, it did obtain a credit bureau report as part of its routine procedure.

In the decline letter of February 26, Mr. Castle was informed of the procedure for requesting reconsideration. His application was accepted for reconsideration on April 14. Mr. Castle's application was approved on reconsideration based, in part, on additional nonbusiness income. Loan closing documents have been returned and disbursement is in process.

Mr. Castle also mentioned an 81 year old applicant who, he stated, was denied because of her age. By law, SBA may not discriminate because of age. Our standard operating procedures make it clear that age may not be a factor in determining whether a loan should be approved, the dollar amount of the loan or the repayment term of the loan.

Fred Burns, Jr.
Burns Motor Freight
Marlinton, West Virginia

Under the law, disaster business loans are limited to a ceiling of $500,000. This limitation applies to business concerns together with their affiliates. Burns Motor Freight and two other business concerns are affiliated because of some common ownership. The $500,000 limit may be waived if the applicant constitutes a major source of employment as defined in the Small Business Administration's (SBA) regulations. In order to assure that the limit was not exceeded and that the required credit and financial analysis considered appropriate affiliated concerns, the three loan requests were processed together. Burns Motor Freight and one of the affiliates were ready for processing on December 29, 1985. However, the other application was not filed until January 6, 1986. All three applications were incomplete as filed; information requested in the application was not included in the filing and had to be requested again.

The loans were approved February 21, 1986.

The total loans approved for all affiliates exceeds $1,200,000, including $1,000,000 for Burns Motor Freight. In addition, a major source of employment waiver can only be granted by the SBA Central Office in Washington. Loans of this size and complexity require extensive documentation and analysis.

As a matter of policy, all loans over $5,000 must be secured. Unlike a bank, SBA will not decline a loan solely because a fixed amount of collateral is not available. However, we do require pledging available collateral in reasonable amounts to cover the loan. Many times, the fair market value of collateral is the subject of disagreement between the borrower and the lender and specific items of collateral are subject to negotiations.

Collateral requirements are part of the loan closing process. While it may be time consuming to assure that the Government's interests are protected (e.g., by filing liens, requiring title insurance for loans over certain amounts, hazard insurance, etc.), these steps are necessary to assure maximum recovery on loans. In this case, as in all cases of closely held corporate businesses, personal guarantees of the owners are required. Working out appropriate collateral requirements with Burns Motor Freight and its owners was a complex process.

We do not agree that the home loan application form is too complex (see attached package). It requires no more information than any reasonable and prudent lender who is unfamiliar with the financial affairs of the applicant would require, and some specific matters that are required by law. Business loan applications are more complex because we are required to review financial and credit matters concerning the business and its principals. These matters are required by law and are to protect the interests of the Government in making subsidized loans.

The purpose of disaster loans is to permit victims to return to their pre-disaster position through the use of subsidized loans. The law does not permit upgrading, except where required by building codes or other extraordinary circumstances. For this reason, and because these are subsidized funds, the disbursements are controlled, that is, the funds are disbursed to borrowers as they are expended or committed for the purposes set forth in the loan agreement. In the past, SBA has been severely criticized for making lump sum disbursements of disaster loans which borrowers then placed in certificates of deposits which carried a return substantially higher than the subsidized interest rate which the borrower was paying. In the case of Burns Motor Freight, the loan closing documents were received by SBA on April 4, 1986. Most of the voluminous documents mentioned by Mr. Burns were receipts for expenditures paid or committed by the borrower. A check for $950,000 was order on April 15 and the final disbursement was ordered on June 5, 1986.

We appreciate Mr. Burns' suggestions on how to improve the disaster loan program. Our procedures are set in an attempt to process loans quickly to relieve the stress and injury caused by the disaster and to protect the interests of the Government as a lender. We have and will continue to review and update our forms and procedures to make them easier to complete and quicker to process within the mandates of the Small Business Act and other governing legislation. In view of the current Federal fiscal problems, our operations must be efficient and effective within permissible cost and expense limits.

Vivian L. Huffman
Onego, West Virginia

Ms. Huffman's applications for a Small Business Administration (SBA) disaster assistance business loan and an SBA disaster assistance home loan were received on January 2, 1986. The applications were incomplete and a letter was sent to Ms. Huffman on January 3, 1986, requesting necessary information to complete the application. The on-site inspection of the damages from the flood was made with Ms. Huffman present. On January 30, 1986, and on February 22, 1986, letters were again sent to Ms. Huffman requesting the information necessary to process the loan. Because there was no response, Ms. Huffman was advised in a letter dated March 11, 1986, that her applications had been withdrawn from active consideration because she failed to furnish the requested information.

In a letter dated March 25, 1986, from Debbie Judy with the Pendleton County Committee on Aging, all information necessary to process the home loan application was provided with a request to have Mrs. Huffman's home loan application declined so that she would be eligible for the Individual and Family Grant Program. It was also noted that she did not wish to process her business loan application.

Ms. Huffman's file was accepted for reinstatement on April 18, 1986, and in a letter dated May 5, 1986, she was advised that her disaster loan application had been declined due to a lack of reasonable assurance of her ability to repay the proposed loan and other obligations from earnings. Ms. Huffman was referred to the grant program in Charleston, West Virginia for assistance.

Miriam Leatherman
George Leatherman
Old Fields, West Virginia

On November 14, George Leatherman visited the Hardy County Disaster Application Center (DAC) and received a Small Business Administration (SBA) disaster home loan application. On November 15, Mr. Leatherman spoke with an SBA representative and received an SBA disaster business loan application and an economic injury disaster loan (EIDL) application. We received the Leathermans' home loan application on November 19; however, neither of their business applications were ever filed. On December 11, an SBA construction analyst conducted an on-site inspection of the damages in the presence of the Leathermans. Thereafter, the Leathermans' loan case file was assigned to a loan officer for financial analysis. Mr. Leatherman states that he was originally promised refinancing in the DAC. SBA representatives in the DACs are instructed not to promise or assure applicants of a final outcome of their loan request. Specifically, these representatives are expected to know the limited nature of refinancing permitted by the law and that eligibility for refinancing is largely based on issues that are not evident until the application is complete, the damage has been verified, and an evaluation conducted.

When a loan officer has completed his analysis of a case, if he believes he will recommend approval, he is instructed to contact the applicant to discuss possible terms and conditions of the loan. The loan officer is instructed to clearly indicate that no decision has been made and a loan cannot be approved until it has been reviewed by a supervisory loan officer and reviewed for legal sufficiency. The loan officer contacted Mr. Leatherman on December 27. During this and subsequent discussions the question of refinancing was brought up and other possible terms were discussed. In the January 3 call, the loan officer told Mr. Leatherman that he was recommending refinancing and other terms were discussed. The loan officer then completed the processing, his recommendation was approved and the case received a legal review. When these steps were completed, the loan was approved on February 1.

The Loan Authorization and Agreement is usually mailed to the borrower within two weeks of loan approval. On February 2, SBA mailed a letter advising the Leathermans of their approval and stated that the Loan Authorization and Agreement was being prepared and would be mailed to them. The Loan Authorization and Agreement and Note was mailed on February 20 and the loan closing documents followed on February 25.

Mr. Leatherman states that two weeks after their conversation with the loan officer on January 3, they began calling our Atlanta office. Because of the large number of staff and the volume of calls we receive, our receptionists are instructed to take messages if a loan officer is unavailable; however, when incoming calls are put directly through to the loan officer, the receptionist does not advise them of who is calling. SBA receptionists handle a large volume of calls and in their attempt to answer all calls promptly, they must be brief in transferring calls and taking messages, perhaps this was construed as rudeness by the Leathermans. Loan officers are responsible for picking up their messages. Perhaps the cause of the misunderstanding here is the name of the loan officer. The Leathermans state that the name of the loan officer and the person whom they asked for when they called was Hal Cohn. The loan officer's name is Howell Cone, this could possibly be the reason for the times the Leathermans said they were told that "Mr. Cohn did not work there" and why he did not receive the messages the Leathermans say they left. Our receptionists often do not know each loan officer's full name and the one the Leathermans spoke with apparently did not make the connection between the names. The loan officer's supervisor may very well have been on sick leave at the time of the Leathermans' calls.

The Leathermans state that they spoke with our Assistant Disaster Branch Manager, Charles Noble, who was able to tell them that their loan case file was in our legal department which is the normal progression of an approved loan request. The Leathermans state that they then contacted the legal department and were told that their file was in processing. While we do not condone inaccurate information being given to the public, it is possible that the computer status reports used by employees taking calls in our legal department and on our toll-free hotline may have been a few days out of date due to the posting and printing lag time.

Mrs. Leatherman stated that she made at least 30 phone calls to our Atlanta office and there there were 30 different numbers. As indicated earlier, our phones often are busy due to the volume of calls we received, particularly around December and January as we were just beginning to expand our phone system to accommodate the large number of calls. As a result of the growth of our staff to handle this and other disasters at the same time, we were forced to acquire several different offices and each department generally has its own direct dial telephone number.

SBA's February 20 cover letter which was enclosed with the Loan Authorization and Agreement and Note stated that other documents would be sent shortly and that they must be completed before the loan could be disbursed in its entirety. SBA provides specific instructions and requirements with respect to each loan closing document in an attempt to simplify the completion of the documents for the borrower and to dispense with the need and expense for an attorney. SBA also has a toll-free telephone number which borrowers may call if they are having difficulties. The SBA representative that helped the Leathermans with their documents most likely stressed that we do try to provide enough instruction so that an attorney is not necessary; however, we respect the borrowers decision if they feel a lawyer is vital in order to close their loan. Perhaps the Leathermans mistook the concern that our representative had over their incurring the additional expenses of an attorney.

The Leathermans' also object to the specific use of proceeds in the loan agreement. The authorizing legislation for the disaster loan program provides financial assistance to repair or replace damaged property to return the disaster victims to their pre-disaster condition. For this reason, upgrading is not permitted and the use of proceeds section in the loan agreement specifies categories of repairs based on the losses verified by SBA. We do not agree that these categories are too restrictive to permit repair and replacement of damaged property. Minor adjustments between categories are permitted. Major adjustments must be approved by SBA.

Scott Jarrett
Flood Recovery Project of the
Appalachian Mental Health Center
Elkins, West Virginia

Mr. Jarrett states that as the original deadline for filing, January 6, 1986, approached, his program coordinator requested that the Small Business Administration (SBA) provide a list of people who had received an SBA disaster loan application package but had not yet returned it to the SBA. He goes on to say that this was provided but not on SBA's own initiative and not until three days prior to the deadline.

In fact, on December 23, 1985, SBA was contacted for the first time about providing such a list for an organization funded through the Federal Emergency Management Agency (FEMA). This was the first notice SBA had that any organization was funded by FEMA to assist applicants to file loan applications. The listing requested was for Pendleton County only and this list was provided immediately upon its request.

On January 2, 1986, SBA was again contacted for a similar listing for four counties including Randolph County. This request was made January 2, and the list was supplied within a day or two after the request. It should be noted that the deadline for filing loan applications was extended on January 6, 1986, for an additional two weeks, until January 20.

After these lists were requested, SBA compiled a list of individuals in all affected counties who had not yet returned their SBA loan applications, which was supplied to the West Virginia individual assistance organization.

It should also be noted that SBA held workshops during the first weeks following the declared disaster to answer questions about the SBA disaster assistance loan program, and to assist potential applicants in connection with any problems they were encountering in filling out the applications themselves. These workshops were publicized by our Agency on both local radio stations and in local newspapers. Also, SBA had individuals available in the various affected areas for the entire two month period, from the time the Disaster Application Centers (DAC) opened until the filing deadline. These weekly circuit rides to each area were for the purpose of accepting applications and answering questions concerning SBA forms. These circuit rides were publicized in local newspapers and on local radio stations. SBA did reach out to those affected individuals, but could only help those who took advantage of the assistance made available to them.

Mr. Jarrett relates the story of an unnamed young couple and their difficulties with the SBA. Their statement is that they were told in the DAC that they should not worry about the loan but go ahead and make repairs and start refurnishing. He goes on to state that they were assured that their loan would be approved as part of a refinancing package that would lower their total payments. Because SBA field personnel neither have the information available nor the authority to make a decision of this nature, they are instructed not to give verbal approvals or assurances at DACs or any other place. Unfortunately, many people were given applications and information in DACs by FEMA registrars and did not, in fact, talk to SBA personnel.

The couple could have been told that the SBA construction analyst can identify disaster damage after repairs have begun, but to retain any receipts from materials or other purchases or repairs and if a loan were approved then these expenses could, if disaster related, be reimbursed by the disaster loan.

Refinancing is limited by the law and is not available in every case. A refinancing eligibility determination cannot be made prior to having a completed application and SBA's verified loss report. This couple could have been told that it is possible to refinance an existing mortgage, if the legal criteria were met.

Mr. Jarrett states that SBA applicants were often requested to provided additional documents once the original application was submitted. Although it is unfortunate, SBA does receive incomplete loan applications. When an incomplete loan application is received, if it appears that a good faith effort to give the need information was made, it will be accepted as incomplete, so that the applicant does not miss the filing deadline, and the missing information is requested by letter. Also, many times during the course of the financial analysis, questions are raised that are not answered in the information supplied and additional information must be requested.

SBA's goal is to process 90 percent of all complete applications within 60 days. This timeframe includes the acceptance of an application, an on-site inspection of the damaged property by an SBA construction analyst, a financial analysis of the submitted data, in conjunction with the verified eligible loss amount and any other recovery or assistance received, and advising the individual of SBA's determination. This goal is contingent upon a complete application being provided to the SBA. Once a loan is approved, loan closing documents are prepared and sent to the applicant. For loans of $5,000 or less, this usually consists of a note and loan agreement. When these are signed and returned (together with evidence of flood insurance, if appropriate) disbursement can be made. Loans of over $5,000 must be secured and the loan closing documents are more complex and more time consuming.

Mr. Jarrett also addresses documents returned due to being improperly signed and dated. The following are a few examples of when this could occur:

1. Documents that were not signed or dated at all, such as the application and other required documents.

2. Documents that were not signed by the proper individuals, for example, a co-applicant failing to sign and date the application.

3. Documents not signed in ink, since permanent signatures are necessary.

4. Applicants sending copies and retaining the originals for themselves, consequently SBA is not provided with original signatures, which are needed with few exceptions.

5. The Loan Authorization and Agreement and the loan closing documents not signed and dated per SBA's instructions.

These are legal requirements necessary to protect the Government's interest as a lender.

Comment is also made that SBA loans are usually larger than necessary with very stringent requirements attached. In some cases borrowers do feel that they were approved for too much money, while others feel it was too little. Before approval, loan officers attempt to contact applications and discuss possible terms of a loan. If an applicant expresses concern regarding the loan amount to the processing loan officer, every effort is taken to adjust the loan amount at that point. If the loan officer is unable to contact the applicant, the loan amount is usually based on the eligible loss verified by SBA. We do not require repair estimates to be submitted with the application. Where they are submitted they are taken into account in setting loan amounts. If a borrower does not desire a loan in the approved amount, and advises SBA of the loan amount wanted, SBA will make every effort to make the necessary changes.

Mr. Scott also comments about the restriction on upgrading. This law makes it clear that the purposes of subsidized disaster loans is to restore the victim's property to its pre-disaster condition. This precludes upgrading except in extraordinary circumstances, such as where required by applicable building code requirements.

Finally, Mr. Jarrett addresses the difficulty of contacting loan officers by telephone in Atlanta. SBA's loan officers are, for the most part, sensitive, conscientious individuals who do not ignore calls or messages from applicants and who realize their job is to assist disaster victims. SBA had literally thousands of pending loan applications between September 1985 and April 1986. This resulted in an enormous increase in staff, not only of loan officers but of personnel in all areas. As can be imagined, the Atlanta office was receiving an unprecedented number of telephone inquires about the status of loan files. There was constant expansion of the telephone system and the number of telephone lines available. Due to this expansion of staff, telephone lines, and the number of people required to man the field operations, sometimes messages did get confused or routed to the wrong individual. However, every effort was made to rectify this situation as it was discovered.

Scottie Wiest
Cooperative Service Coalition of Randolph County
Elkins, West Virginia

We appreciate the help which was offered by the FEMA outreach workers and Cooperative Service Coalition. On December 23, 1985, the Small Business Administration (SBA) was contacted for the first time about providing a list of those who had received SBA application forms but had not filed an application for an organization funded through the Federal Emergency Management Agency (FEMA). This was the first notice SBA had that any organization was funded by FEMA to assist applicants to file loan applications. The listing which was requested was for Pendleton County only and this list was provided immediately upon its request.

On January 2, 1986, SBA was again contacted for a similar listing for four counties, including Randolph County. The list was provided a day or two after the request. It should be noted that the deadline for filing an SBA loan application was extended on January 6, 1986, for an additional two weeks until January 20. After this list was requested, the disaster field office compiled a list of individuals in all affected counties who had not yet returned their SBA loan applications which was supplied to the West Virginia individual assistance organization. It should also be noted that SBA held workshops during the first weeks following the declared disaster to specifically answer questions about the SBA disaster assistance loan program, and to assist potential applicants with any problems they were encountering in filling out the applications themselves. These workshops were publicized by our Agency on both local radio stations and in local newspapers. Also, SBA had individuals available in the various affected areas for the entire two-month period, from the time the disaster application centers (DAC) opened until the filing deadline, who performed a circuit ride weekly to each area for the purpose of accepting applications and answering questions concerning SBA forms. These circuit rides were publicized in local newspapers and on local radio stations. SBA did reach out to those affected individuals, but could only help those who took advantage of the assistance plainly available to them.

Ms. Wiest states in her testimony that as of April 10, there were still 200 pending SBA loan applications in Randolph County. We do not know where this figure was obtained and we believe it to be inaccurate. As of April 7, 1986, there were only 100 disaster loan applications that had not been processed to decision (i.e., withdrawn, declined or approved) for the entire State. Of these 100, 39 were reconsideration requests filed by applicants after receiving the decline decision. In fact, as of May 7, SBA had only accepted a total of 186 applications in Randolph County, including 9 reconsiderations. Of this figure, 158 were disaster home loan applications and 28 were disaster business loan applications.

Ms. Wiest states that due to the stress the victims were under, often information was not taken in accurately. Consequently, victims often misinterpreted information given to them. Because the grant Program is state run and an entirely different program from SBA, SBA's personnel avoid discussing the grant program or guidelines as they are not qualified to do so. Applicants declined an SBA home loan are informed that they may be eligible for a grant under the grant program; furthermore, these individuals are notified of this possible eligibility in writing in SBA's decline letter. If the decline letters are issued in the DAC, the victims are referred directly to the grant program representative in the DAC.

There are several references to individuals who were declined, because their debt service was so high in respect to their available income that it was determined that no additional debt could be serviced or that their income would not sustain any debt other than their current living expenses. Although we attempt to accommodate all victims within our statutory mandate, it must be remembered that these are loans, not grants, and the basic ability to repay SBA's loan must be evident prior to loan approval. This information is provided on a Fact Sheet which is given out with each application.

Repayment ability is usually evidenced by a cash flow determination including income verified either by Federal Income Tax returns, W-2 forms, letters from employers or letters verifying nontaxable sources of income such as pensions or social security. The total verified source of income must cover taxes, fixed debt listed by the applicant, living expenses for the family involved and still show available funds to repay an SBA loan.

Several individual cases are referred to by Ms. Wiest, however, since she provided no last names, the SBA can neither respond nor review these loan case files. With respect to one instance mentioned by Ms. Wiest, it should be noted that once the Loan Authorization and Agreement has been signed by the applicant and returned to SBA, a binding contract is in effect and is modified only at the request of the applicant, by the terms of the agreement, or by operation of law. We know of no case in West Virginia where a loan was approved, partial disbursement was made and the loan was later declined ("removed her from the loan list") without one of the above factors being present.

We have supplied an SBA disaster home loan application package elsewhere in these comments (see comments to testimony of Fred Burns). The information required is no more than any reasonable and prudent lender who is unfamiliar with the applicant's financial status would require, plus matters required by various laws. We have and will continue to review and update our forms and procedures to make them easier to complete and quicker to process within the mandates of the various laws that affect this program.

George Sponaugle
(Contains Reference to Harlan Moyers)
Franklin, West Virginia

Mr. Sponaugle refers to the question as to whether a farmer or agricultural enterprise could be assisted under the Small Business Administration's (SBA) program. At the time of the West Virginia flood, there was no simple answer to that question. In accordance with the applicable laws, farmers who had credit available elsewhere and farmers who had no credit available elsewhere but who had eligible disaster losses of more than $100,000 were eligible for SBA disaster assistance. Other farmers were eligible for SBA assistance if they were declined for Emergency Loan assistance by Farmers Home Administration (FmHA) for other than credit reasons.

To further complicate this situation, there was legislation pending at the time of this disaster that would completely eliminate disaster lending by SBA to agricultural enterprises. SBA's personnel in West Virginia were aware that this legislation could be enacted at any moment. As it turned out, this bill, Public Law 99-272 was signed by the President April 7, 1986, but was retroactive to October 1, 1986, making farmers damaged by the November flooding ineligible for SBA disaster assistance. This legislation will eliminate any future confusion of this sort.

Reference is made as to the detailed information needed as to victim's losses. This is also required by most insurance companies and the Internal Revenue Service (IRS) for the purpose of claiming a casualty loss. The forms clearly call for estimates, and are intended to assure that all damaged or destroyed items are covered in the loss determination. Further items that are remembered later can be re-verified even after a loan is approved if the applicant requests this in writing.

A mistake was made in the case of Mr. and Mrs. Harlan Moyers. The SBA is grateful that this was brought to light by Mr. Sponaugle and Senator Byrd in order that it could be corrected. Once made aware of the situation it was immediately corrected. The file was reinstated on March 24, and expedited through processing and legal review. The loan has been fully disbursed.

The SBA extends its sincere apology to Mr. Sponaugle if he was treated in an arrogant or rude manner and any information that could be provided as to the identity of this individual would enable the SBA to examine this incident more closely.

SBA COMMENTS

AS OF JUNE 6, 1986

ON CASES MENTIONED IN LETTERS SUPPLIED BY SUBCOMMITTEE

STATE OF WEST VIRGINIA

Barb's Drug Store
Parsons, West Virginia

The applicant applied for a disaster loan for business and real estate totalling $453,309 on January 2, 1986. The applicant's request for $453,309 included $104,905 to repay prior debts. On January 4, 1986, applicant submitted another application for a loan to recover damages to rental property for $37,800. On January 20, 1986, losses were verified at $333,026. The applicant received insurance proceeds totalling $99,700, which reduces the eligible disaster loss incurred by that amount.

Two loans were approved on April 1, 1986, totalling $241,900, including property damage, inventory equipment, and refinancing an interim loan. Most of these loans have since been disbursed.

The Small Business Administration (SBA) loan officer discussed with a Mr. Kalor and Ms. Barb, the applicant, the loan amounts and terms of the loans on March 19, 1986. The specific loan amount for any physical disaster loan is based on the SBA verification of the amount required to repair or replace damaged property. By law, pre-existing business liens may only be refinanced in certain specific circumstances. Each case is handled on its own facts in accordance with the applicable statute, regulations and standard operating procedures and comparisons cannot be made without a detailed study of all the facts involved.

Steven W. Combs
D/B/A Greenlief Funeral Home
Parsons, West Virginia

Mr. Combs' incomplete application was received by the Small Business Administration (SBA) January 7, 1986. The missing items were set forth by the preparer of the application, and included personal financial statements (SBA Form 413), a history of the business, copies of any existing rental or lease agreements, title(s) and proof of current registration (at time of disaster) for any damaged automotive vehicle, and/or trailers and to any undamaged units to be offered as collateral, copies of personal and business tax returns and other required financial and insurance information.

On January 13, a deficiency letter was sent to Mr. Combs requesting the items that were not sent with the application. On February 5, a second letter was sent requesting the same items that did not accompany the application. Mr. Combs was given fourteen days to respond to this request before his file would be withdrawn from active consideration.

On February 22, a follow-up call was made to Mr. Combs from the SBA Disaster Office. Mr. Combs stated that most of the items had been sent and that he would forward the automobile registrations.

On February 25, SBA received some of the missing items, but not enough to permit loan processing. On March 3, SBA notified Mr. Combs of the withdrawal of his application for failure to supply the needed information.

On April 25, SBA reinstated Mr. Combs application as the result of having received, by that date, sufficient information to permit loan processing. The application was declined on May 15 due to lack of reasonable ability to repay the loan and lack of assurance that the applicant will comply with the terms of a loan agreement. The decline was based on a review of financial information supplied which shows that expected cash flow would be insufficient to cover additional debt.

Odford Gray
Tucker Farm Supply, Inc.
Parsons, West Virginia

The Small Business Administration (SBA) received Tucker Farm Supply, Inc.'s, complete disaster assistance business loan application on January 29. On March 7 the application was declined for lack of repayment ability. This decision was based on 1982, 1983 and 1984 corporate Federal tax returns, 1984 personal tax returns and 1985 income statement and balance sheet.

The corporation requested refinancing of all their existing debt on their application. The law limits refinancing to the amount of the physical loss sustained after deductions for insurance and other recoveries and in other fashions. The verified loss of the applicant was less than half of the refinancing requested.

Because these are loans, all applicants must demonstrate reasonable ability of being able to repay the loan out of the operations of the business. The business showed an insufficient cash flow to support existing debt and expenses. The applicant requested reconsideration and supplied additional financial information. A loan was approved on May 28, 1986.

In order to complete as thorough an analysis as possible and comply with Federal law and regulations, there are several forms that must be completed in order to be considered for an SBA disaster assistance business loan. We provide instructions to assist the applicant in completing the application package. The deadlines for filing are: 2 months for physical loans and 9 months for economic injury loans. The deadline for filing in West Virginia was extended from January 6 to January 20.

By having SBA representatives in the Disaster Application Centers (DAC) and on subsequent visits throughout the filing period, we attempt to serve the disaster victims as personally as possible. We also have a toll-free hotline number in Atlanta and had a temporary toll-free hotline number in Clarksburg to assist applicants with any questions they may have had concerning the program.

David W. Greenlief
Greenlief Funeral Home
Parsons, West Virginia

Mr. Greenlief's incomplete application was accepted January 7, 1986. The cover letter prepared by the applicant's representative stated that six items were missing and would be supplied.

On January 14, a deficiency letter was sent to Mr. Greenlief requesting the missing items.

On February 5, a second letter requesting the same information was sent to Mr. Greenlief. This letter gave him fourteen days to respond to this request before the file was withdrawn from active consideration.

This file was withdrawn from active consideration on March 3 for failure to respond to our second request dated February 5. The required information was sent on February 21 and February 25 and the file was reinstated on March 11.

The financial analysis based on the information submitted with the application showed a lack of reasonable ability to repay the loan and other debts out of the operations of the business and the loan was declined March 20. The applicant requested reconsideration on March 24 which was denied on April 1 because no new financial information was provided to overcome the reasons for decline. A further request for reconsideration was accepted on May 20, 1986, and is being processed. It should be noted that the disaster assistance program can only be used to return victims to their pre-disaster condition. Thus, SBA could not approve a disaster loan to establish a new business.

Allen H. Loughry
D/B/A Parsons's News and Novelty
Parsons, West Virginia

Mr. Loughry's applications for a Small Business Administration (SBA) disaster physical loan and an economic injury disaster loan (EIDL) were received by this office on January 8, 1986. They were incomplete and a deficiency letter was mailed on January 20 requesting the data necessary to process the loan requests. On February 2, an on-site inspection of the physical losses was conducted by an SBA Construction Analyst in the presence of Mr. Loughry. A loan officer then conducted an analysis and evaluation of all submitted data. In accordance with SBA's regulations, all SBA loans larger than $5,000 are, if possible, secured. Since Mr. Loughry's SBA loan eligibility and loan request were substantially greater than $5,000, the loan officer advised, in a telephone conversation on March 19, that the loans would need to be secured by the equity available in Mr. Loughry's home as this was the only piece of real property presented to SBA at that time. During this conversation, Mr. Loughry informed the loan officer that he was unwilling to pledge the house as collateral. Therefore, in a letter dated March 21, 1986, Mr. Loughry was advised that SBA was unable to approve his application for a disaster assistance loan.

On April 17, 1986, Mr. Loughry's applications were accepted for reconsideration based on a letter from Mr. Loughry which he signed on April 8. On April 18, 1986, an SBA supervisory loan officer contacted Mr. Loughry to discuss the possibility of alternate collateral to secure the loans. Mr. Loughry agreed to send a copy of a deed to approximately 50 acres of timberland which he owned and which had previously not been provided to SBA. He agreed to pledge this property, in conjunction with the assets of the business, should the loans be approved.

On April 29, a physical and an economic injury loss loan were approved. The closing papers have been completed and returned and partial disbursement has been made.

R. W. Minear, President
First National Bank of Parsons
Parsons, West Virginia

The Small Business Administration (SBA) recognizes that it cannot supply the immediate financial needs of a business in a disaster situation. For this reason, we encourage local banks to make funds available to local businesses. We tell the banks the details of our program and specifically state that we cannot make any commitments or guarantees about loan approval until we have received completed applications and have fully processed them. We also tell them if we do approve a loan and complete the loan closing, part of the proceeds may be used to repay the bank loan if the bank loan was used for eligible disaster damage repair or replacement. This approach was followed in West Virginia.

Mr. Minear states that six loans which his bank made on an interim basis have been declined by SBA. He also states that in each case the interim loans were "based on the approval of SBA to repay same and documentation to this affect was in hand by the customer and was our surety for the loan."

When a loan is approved, a Loan Authorization and Agreement is prepared, signed by SBA and forwarded to the applicant. Upon proper execution by the applicant, this document becomes binding upon SBA and can only be terminated by its terms, by agreement of the parties or by operation of law. We know of no instance where SBA gave a written commitment of a loan to an applicant and later declined the loan. No such procedure exists. No one is authorized to bind SBA or give a commitment before a loan application has been fully processed and the Loan Authorization and Agreement properly executed. We know of no instance where this or any similar procedure was followed. We asked for identification of the six cases mentioned in his letter.

In response to our request, sever case names were supplied. In no instance was an applicant's loan approved and the approval later revoked. Mr. Minear's statement has not been supported. The case details are as follows:

Case #1
Loan approval notice for $40,600 sent to applicant on March 3, 1986. Loan closing documents sent to applicant March 13, 1986. Disbursement of $30,600 ordered May 21, 1986. The file contains no mention of an interim loan from the bank that was to be repaid out of the proceeds of the SBA loan.

Case #2
Loan approval notice for $20,400 sent January 7, 1986. Loan closing documents sent February 5, 1986. Loan closing documents returned May 21, 1986. Initial disbursement of $15,400 ordered May 27, 1986. The file contains no mention of an interim loan from the bank that was to be repaid out of the proceeds of the SBA loan.

Case #3
Notice of decline sent March 7, 1986, due to lack of reasonable assurance of ability to repay, request for upgrading and unsatisfactory experience on existing SBA loan. No reconsideration request submitted.

Case #4
Incomplete application received January 7, 1986. Deficiency notice sent January 18, 1986. Fourteen-day letter for required information sent February 6, 1986. Application withdrawn because missing information not supplied on March 11, 1986. No reconsideration request submitted.

Case #5
Incomplete application received and deficiency notice sent January 6, 1986. Fourteen-day letters for missing information sent February 7, 1986, and February 27, 1986. On March 11, 1986, during conversation with loan officer, applicant business owners refused to personally guaranty the loan and requested it be withdrawn. Loan withdrawn March 14, 1986.

Case #6
Incomplete application received and deficiency notice sent January 14, 1986. Fourteen-day letter for required information sent February 4, 1986. Loan declined March 10, 1986, due to lack of reasonable assurance of ability to repay. No reconsideration request submitted.

Case #7
Incomplete application accepted and deficiency notice sent December 20, 1986. Fourteen-day letter sent January 16, 1986. Economic injury loan request withdrawn at applicant's request February 21, 1986. Physical damage loan for $233,900 approved March 12, 1986. Thereafter, at borrower's request, loan reduced to $77,000, collateral and use of proceeds changed. The file contains notice of an interim loan from the bank and instructions to pay the bank with the proceeds. On June 4, 1986, checks were ordered for $77,000 payable to applicants and the bank.

Carol J. Thompson
D/B/A Thompson's Department Store

Ms. Thompson's incomplete application was accepted, on January 14, 1986, and applicant was notified of the missing material. On February 5, 1986, a letter was sent requesting the missing information and informing her that the application would be withdrawn if the information was not supplied in 14 days. Part of the information was received, but not the tax returns needed to process the file. Ms. Thompson was notified in a letter dated February 26 that her file was withdrawn for failure to furnish the required information.

By letter received March 3, Ms. Thompson stated that the requested information was mailed to the Clarksburg disaster office. Based on this, Ms. Thompson's application was reinstated on March 11. However the tax return information sent by Ms. Thompson was insufficient and a second 14-day letter was sent on March 14. On March 31, 1986, Ms. Thompson's file was again withdrawn for failure to furnish the required information. A reinstatement request was denied on April 15 because the requested tax return had not been provided. Subsequently, there were discussions between Ms. Thompson and SBA concerning the fact that the IRS had no record of her filing a 1983 tax return and the fact that extensions had been granted for her to file returns for 1984 and 1985. On May 23, she supplied copies of returns for 1982-1985 and the application was reaccepted.

Each time an application is reaccepted after withdrawal, it is given a new docket number. Ms. Thompson's application docket number is 2217 2810. The loan was approved and the loan authorization was sent June 10. Loan closing documents are being prepared.

Appendix F--Statement From Federal Emergency Management Agency

Federal Emergency Management Agency
Region III 105 South 7th Street Philadelphia, Pennsylvania 19106

APR 09 1986

Nicholas Mavroules, Chairman
United States House of Representatives
Committee on Small Business
Subcommittee on General Oversight and the Economy
B-363 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Mavroules:

This is in response to your March 31 letter inviting me to testify at your Committee on Small Business hearing in Lewisburg, West Virginia on April 11.

Unfortunately, due to a previous personal commitment, I will not be able to attend your hearing. I have attached, however, a written statement for the record, regarding FEMA's role in the West Virginia disaster recovery effort.

I am sure you will note this testimony follows a similiar format that the written testimony submitted by Mr. Robert J. Adamcik of this office for the Virginia disaster response.

If you desire any additional information or have any questions, please call me at (215) 597-1297.

Sincerely,

Alfred A. Hahn

Alfred A. Hahn
Deputy Federal Coordinating Officer
FEMA 753-DR-West Virginia

Attachment

NICHOLAS MAVROULES, MASSACHUSETTS
CHAIRMAN

BERKLEY BEDELL, IOWA
NORMAN SISISKY, VIRGINIA
JIM COOPER, TENNESSEE
JIM OLIN, VIRGINIA
JOSEPH P. ADDABBO, NEW YORK

United States House of Representatives
Committee on Small Business
Subcommittee on General Oversight and the Economy
B-363 Rayburn House Office Building
Washington, DC 20515

SILVIO O. CONTE, MASSACHUSETTS
JOSEPH J. DIOGUARDI, NEW YORK
JIM KOLBE, ARIZONA
STEWART B. MCKINNEY, CONNECTICUT

CATHLEEN GARMAN
SUBCOMMITTEE STAFF DIRECTOR
202-225-8944

JOHN VITALI
MINORITY SUBCOMMITTEE COUNSEL
202-225-3420

March 31, 1986

Mr. Al Hahn
Federal Coordinating Officer
for West Virginia
FEMA
105 South Seventh Street
Philadelphia, PA 19106

Dear Mr. Hahn:

On Friday, April 11, 1986, the General Oversight and the Economy Subcommittee of the House Small Business Committee will be holding a hearing on disaster loan assistance. The hearing will be held in Lewisburg, West Virginia at the Greenbriar County Court House beginning at approximately 2:30 p.m. We would like to invite you to testify as a witness at the hearing.

As you may know, Congress instituted the SBA disaster loan assistance program to give disaster victims immediate access to low interest loans. Unfortunately, the members of this Subcommittee have received many complaints that the SBA's current efforts in Virginia and West Virginia have served few, if any, applicants. It is our responsibility to investigate the SBA's administration of the program and to look for ways it can be improved. We feel your experience and insight would contribute greatly to our analysis of the situation.

So that we may have time for questions, we would ask that your testimony be limited to five minutes. Your oral statement may be accompanied by a written statement for the record, which may be longer and more detailed. Also, we would like 10-15 copies of your written statement by April 7. You may wish to bring additional copies of your statement to the hearing for public distribution.

We thank you in advance for your cooperation, and are looking forward to your testimony on April 11. Should you have any questions regarding this request, or desire additional information, please contact either Cathleen Garman in the Subcommittee office at (202) 225-8944, or Randy in Congressman Staggers office at (202) 225-4331.

Sincerely,

Nicholas Mavroules
Chairman

NM:ra

GENERAL OVERSIGHT AND ECONOMY
SUBCOMMITTEE OF THE HOUSE
SMALL BUSINESS COMMITTEE

DISASTER LOAN ASSISTANCE HEARING
LEWISBURG, WEST VIRGINIA
APRIL 11, 1986

WRITTEN STATEMENT PREPARED BY:

ALFRED A. HAHN
DEPUTY FEDERAL COORDINATING OFFICER

FEMA 753-DR-WEST VIRGINIA

I appreciate being invited to discuss roles and responsibilities of my agency, the Federal Emergency Management Agency, in disaster relief and recovery and am sorry that I could not testify in person due to a previous commitment.

As implied in its title, FEMA is an agency which deals with a wide range of emergency management activities for disasters of all types, natural and manmade. Preparedness and response are two of FEMA's principal functions. For instance, several of FEMA's programs assist in identifying hazards and preparing for disasters. Among them are the Dam Safety Program, Earthquake and Hurricane Preparedness Programs, and the National Flood Insurance Program, which provides mapping for floodprone communities. These and other programs, such as the Disaster Preparedness Improvement Grant Program, the Hazard Mitigation Assistance Program, and the Civil Defense Programs, also assist State and local governments in preparing for disasters through planning.

The Federal disaster relief program is designed to supplement the efforts and available resources of State and local government and voluntary relief organizations. The President's declaration of a "major disaster" authorizes Federal aid under the Disaster Relief Act of 1974 (Public Law 93-288) and triggers other Federal agency disaster assistance programs. The Federal response is coordinated by the Federal Emergency Management Agency (FEMA).

The primary responsibility in disaster response rests with the affected political jurisdictions and the State. When a disaster threatens or actually occurs, local officials take immediate steps to warn and evacuate citizens, alleviate suffering, and protect life and property. If additional help is needed, the Governor of the State may implement the State's emergency plan, activate the National Guard, or commit other State resources as the situation demands. Federal establishments, particularly military installations which are located in or near the disaster area, may provide immediate lifesaving assistance, and other Federal agencies may be able to provide assistance under their own statutory authorities, such as floodfighting by the Corps of Engineers. However, if the situation is beyond the capabilities of local and State forces, supplemented by limited assistance of Federal forces on the scene, the Governor may request that the President declare a "major disaster" under the authority of Public Law 93-288.

As you know, because of the severe and widespread damage in West Virginia, Governor Moore requested major disaster assistance for the flood-stricken area. The President's November 7, 1985, major disaster declaration for West Virginia triggered a broad range of Federal assistance for the affected communities and individuals.

FEMA's role in administering the disaster relief program involves both management and coordination. We administer PL 93-288 programs and we coordinate the Federal response. I'll first touch on the coordinating role.

Immediately following a major disaster declaration by the President, the Director of FEMA appoints a Federal Coordinating Officer (FCO). Mr. Tommie Hamner of the FEMA Region IX office was designated as the FCO for the West Virginia disaster. As FCO, it was Mr. Hamner's job to (1) make an initial appraisal of the types of relief most urgently needed, (2) establish a Disaster Field Office (DFO) as the operational and coordination base for disaster reponse efforts, and (3) coordinate the administration of relief. The FCO does not have directive or decisive authority over other agency programs, such as eligibility determinations, internal management, etc. My involvement with the November floods commenced when I was appointed Deputy Federal Coordinating Officer for the Virginia Disaster Response. I retained that position until December 6th when I reported to West Virginia to serve as Mr. Hamner's Deputy FCO.

The West Virginia Disaster Field Office was established in Clarksburg and was operational on November 14, 1985. The primary Public Information objective of the FCO was to inform disaster victims and public officials of the assistance available and then to assist them in obtaining the aid to which they were entitled. Information was disseminated in West Virginia by FEMA through radio, television and newspapers, and mass distribution of pamphlets and program Fact Sheets outlining available aid programs.

To make it easier for individuals to get information and apply for assistance, FEMA operated 22 Disaster Application Centers in the disaster area. Representatives of Federal agencies, State and local governments and private relief organizations were available to register and advise disaster victims. FEMA also operated two Hotlines as another means by which disaster victims could learn of assistance available or make their needs known; one General Hotline and the second 800 number for individuals who had questions regarding our housing assistance programs. Our victim registration process provides for close coordination among disaster relief agencies and organizations through colocation of staff, a standardized application, and sharing of application information.

At the outset of the West Virginia response, FEMA had daily Federal-State coordination meetings to compare notes and discuss problems and issues. The FCO's counterpart, the State Coordinating Officer (SCO), Colonel W. F. Donohoe was appointed by the Governor and is the primary point of contact with State and local officials.

Turning to program management, that is, administration of PL 93-288 programs, there are two broad categories of assistance available from FEMA: Individual Assistance (aid for disaster victims and their families) and Public Assistance (aid to the State and local governments).

Individual Assistance generally requires priority in the early post-disaster period. FEMA's programs provide a broad range of assistance for individuals and families affected by the disaster. This help may include:

Temporary Housing Assistance - direct or financial assistance for disaster victims whose homes are uninhabitable.

Individual and family grants of up to $5,000 to meet disaster-related necessary expenses or serious needs when those affected are unable to meet such expenses or needs through other programs or other means.

Disaster unemployment assistance for those unemployed as a result of a major disaster.

Legal services to low-income families and individuals, and

Crisis counseling to relieve disaster-caused mental health problems.

FEMA is directly responsible for the administration of the Housing Assistance Program. FEMA does this by providing interim housing or financial assistance until, for many, their insurance settlement or SBA loan comes through with funds for permanent repairs to their home. The State Highway Department of West Virginia assisted us in the housing assistance program by constructing mobile home group sites required to house disaster victims in FEMA-owned mobile homes. FEMA will reimburse the Highway Department for all cost associated with this mission.

Concerning Public Assistance, State and local officials are briefed, as soon as possible after a disaster declaration, on the types of assistance available in the public sector and the application procedures. Eligible applicants are State agencies as well as political subdivisions of the State and qualifying private non-profit institutions within the designated disaster area.

Damage Survey Reports are prepared by Federal engineers. These reports, which document damage and recommend the eligible restorative work and eligible costs, are the basis for the project application. Grants are made on a 75% Federal/ 25% State and local cost sharing basis for debris clearance, emergency protective measures, and the repair or restoration of damaged or destroyed public and certain private non-profit facilities. Work is normally accomplished by the affected State or local government with their own forces or under contract. In West Virginia, FEMA also issued a Mission Assignment to the Corps of Engineers to remove all debris which posed a health or safety threat.

Your Subcommittee may be interested in the following data concerning FEMA disaster programs assistance in West Virginia as of April 8, 1986:

- Temporary housing assistance was furnished to 4,388 households at a cost of $18,174,000.
- Individual and Family Grant assistance has been furnished to 2,844 eligible applicants to date, in the amount of $8,053,643.
- Disaster Unemployment Assistance was paid to 2,866 applicants in the amount of $333,572.
- A crisis counseling grant was approved in the amount of $780,072.
- Public Assistance project applications totaling $57,135,830 were approved for 155 State and local applicants.
- Obligations to date for PL 93-288 assistance in West Virginia exceed $105 million.

Thank you for the opportunity to submit this Statement.

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